

Mount Gilead Exempted Village
School District
Morrow County, Ohio

Audited Financial Statements

For the Fiscal Year Ended
June 30, 2014



Dave Yost • Auditor of State

Board of Education
Mount Gilead Exempted Village School District
145 N. Cherry Street
Mt. Gilead, OH 43338

We have reviewed the *Independent Auditor's Report* of the Mount Gilead Exempted Village School District, Morrow County, prepared by Rea & Associates, Inc., for the audit period July 1, 2013 through June 30, 2014. 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 Mount Gilead Exempted Village 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 6, 2015

This page intentionally left blank.

Mount Gilead Exempted Village School District
Morrow County, Ohio
Table of Contents
June 30, 2014

| | <i>Page</i> |
|--|-------------|
| Independent Auditor’s Report | 1 |
| Management’s Discussion and Analysis | 4 |
| Basic Financial Statements: | |
| Government-Wide Financial Statements: | |
| Statement of Net Position..... | 12 |
| Statement of Activities | 13 |
| Fund Financial Statements: | |
| Balance Sheet – Governmental Funds..... | 15 |
| Reconciliation of Total Governmental Fund Balance to Net Position of Governmental Activities | 16 |
| Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental Funds | 17 |
| Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance of Governmental Funds to the Statement of Activities | 18 |
| Statement of Net Position – Proprietary Fund..... | 19 |
| Statement of Revenues, Expenses and Changes in Fund Net Position – Proprietary Fund..... | 20 |
| Statement of Cash Flows – Proprietary Fund..... | 21 |
| Statement of Fiduciary Net Position – Fiduciary Fund | 22 |
| Statement of Changes in Fiduciary Net Position – Private Purpose Trust Fund | 23 |
| Notes to the Basic Financial Statements | 24 |
| Required Supplementary Information: | |
| Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual (Non-GAAP Budgetary Basis)..... | 56 |
| Notes to the Required Supplementary Information..... | 57 |
| 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 | 59 |
| Independent Auditor’s Report on Compliance for Each Major Program and Report on Internal Control Over Compliance Required by OMB Circular A-133 | 61 |
| Schedule of Expenditures of Federal Awards | 64 |
| Notes to Schedule of Expenditures of Federal Awards | 65 |
| Schedule of Findings and Questioned Costs | 66 |

This page intentionally left blank.

January 29, 2015

To the Board of Education
Mount Gilead Exempted Village School District
Morrow County, Ohio
145 North Cherry Street
Mount Gilead, OH 43338

Independent Auditor's Report

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Mount Gilead Exempted Village School District, Morrow County, Ohio, (the District) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for 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, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Mount Gilead Exempted Village School District, Morrow County, Ohio, as of June 30, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

As described in Note 19 to the financial statements, during fiscal year 2014, the District adopted new accounting guidance in Governmental Accounting Standards Board (GASB) Statement No. 65, "Items Previously Reported as Assets and Liabilities"; and as a result restated their June 30, 2013 net position of governmental activities due to a reclassification of debt issuance costs as an expense in the period incurred rather than amortizing over the life of the debt. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the required budgetary comparison for the general fund on pages 4-11 and 56-58, 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 District's basic financial statements. The schedule of expenditures of federal awards, as required by *Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations* 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 29, 2015, on our consideration of the 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 District's internal control over financial reporting and compliance.

Hea & Associates, Inc.

Millersburg, Ohio

**Mount Gilead Exempted Village School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2014
(Unaudited)**

The discussion and analysis of Mount Gilead Exempted Village School District's (the "District") financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2014. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review notes to the basic financial statements and financial statements to enhance their understanding of the District's performance.

Financial Highlights

Key financial highlights for 2014 are as follows:

- Net position of governmental activities decreased \$446,219 which represents a 2% decrease from 2013.
- Governmental Activities – General revenues accounted for \$12,203,852 in revenue or 82% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$2,719,976 or 28% of total revenues of \$14,923,828.
- The District had \$15,370,047 in expenses related to governmental activities; \$2,719,976 of these expenses were offset by program specific charges for services, grants or contributions. Governmental Activities – General revenues of \$12,203,852 were also used to provide for these programs.

Overview of the Financial Statements

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

The *Statement of Net Position* and *Statement of Activities* provide information about the activities of the whole District, presenting both an aggregate view of the 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 District's most significant funds with all other nonmajor funds presented in total in one column. The General Fund and Debt Service Fund are the major funds of the District.

Government-wide Financial Statements

While this document contains the large number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the questions, "How did we do financially during 2014?" The Statement of Net Position and the Statement of Activities answers 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.

Mount Gilead Exempted Village School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2014
(Unaudited)

These two statements report the District's *net position* and changes in that position. This change in net position is important because it tells the reader that, for the District as a whole, the financial position has improved or diminished. The causes of this change may be the result of many factors, both financial and non-financial. Non-financial factors include the District's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, required educational programs and other factors.

In the Statement of Net Position and the Statement of Activities, the overall financial position of the District is presented in the following manner:

- Governmental Activities – Most of the District's programs and services are reported here including instruction, support services, operation of non-instructional services, extracurricular activities and interest and fiscal charges.

Fund Financial Statements

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

Governmental Funds Most of the 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 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.

Fiduciary Funds Fiduciary Funds are used to account for resources held for the benefits of parties outside the government. Fiduciary Funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the District's own programs. The District's fiduciary activities are reported in separate statements of Fiduciary Net Position and Changes in Fiduciary Net Position.

The District as a Whole

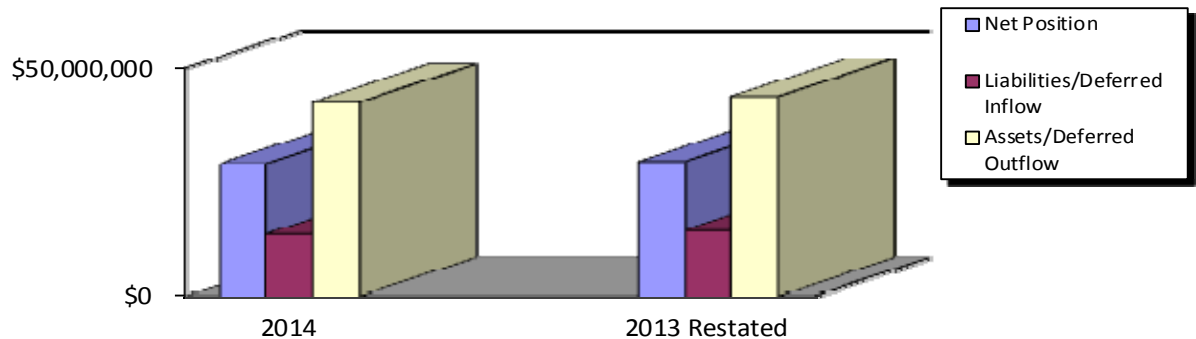
As stated previously, the Statement of Net Position looks at the District as a whole. Table 1 provides a summary of the District's net position for fiscal year 2014 compared to fiscal year 2013:

This Space Intentionally Left Blank

**Mount Gilead Exempted Village School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2014
(Unaudited)**

**Table 1
Net Position**

| | Governmental Activities | |
|--------------------------------------|-------------------------|---------------------|
| | 2014 | 2013 Restated |
| Assets: | | |
| Current and Other Assets | \$12,315,480 | \$12,822,379 |
| Capital Assets | 29,964,446 | 30,696,915 |
| Total Assets | 42,279,926 | 43,519,294 |
| Total Deferred Outflows of Resources | 243,651 | 261,895 |
| Liabilities: | | |
| Other Liabilities | 1,292,238 | 1,235,016 |
| Long-Term Liabilities | 8,688,917 | 9,209,378 |
| Total Liabilities | 9,981,155 | 10,444,394 |
| Total Deferred Inflows of Resources | 3,549,177 | 3,897,331 |
| Net Position: | | |
| Net Investment in Capital Assets | 23,247,373 | 23,897,812 |
| Restricted | 2,832,629 | 3,003,057 |
| Unrestricted | 2,913,243 | 2,538,595 |
| Total Net Position | \$28,993,245 | \$29,439,464 |



Over time, net position can serve as a useful indicator of a government's financial position. At June 30, 2014, the District's assets exceeded liabilities by \$28,993,245.

At year-end, capital assets represented 70% of total assets. Capital assets include land, land improvements, buildings and improvements, and equipment. The net investment in capital assets to acquire the assets at June 30, 2014, was \$23,247,373. These capital assets are used to provide services to the students and are not available for future spending. Although the 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.

**Mount Gilead Exempted Village School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2014
(Unaudited)**

A portion of the District's net position, \$2,832,629 represents resources that are subject to external restriction on how they must be used. The external restriction will not affect the availability of fund resources for future use.

Capital Assets decreased mainly due to current year depreciation expense exceeding current year additions. Total liabilities also decreased due to the District decreasing their long-term debt by making timely principal payments.

Table 2 shows the changes in net position for fiscal years 2014 and 2013.

**Table 2
Changes in Net Position**

| | Governmental Activities | |
|---|-------------------------|---------------------|
| | 2014 | 2013 Restated |
| Revenues: | | |
| Program Revenues | | |
| Charges for Services | \$908,367 | \$969,006 |
| Operating Grants, Contributions | 1,811,609 | 1,660,445 |
| General Revenues: | | |
| Income Taxes | 1,472,263 | 1,016,853 |
| Property Taxes | 3,445,708 | 3,719,884 |
| Grants and Entitlements | 6,297,981 | 5,983,062 |
| Other | 987,900 | 661,194 |
| Total Revenues | <u>14,923,828</u> | <u>14,010,444</u> |
| Program Expenses: | | |
| Instruction | 8,414,127 | 7,789,783 |
| Support Services: | | |
| Pupil and Instructional Staff | 1,549,178 | 1,763,707 |
| School Administrative, General | | |
| Administration, and Fiscal | 1,698,192 | 1,427,742 |
| Operations and Maintenance | 1,528,395 | 1,390,248 |
| Pupil Transportation | 764,309 | 664,507 |
| Central | 18,013 | 16,022 |
| Operation of Non-Instructional Services | 658,190 | 572,850 |
| Extracurricular Activities | 357,366 | 334,362 |
| Interest and Fiscal Charges | 382,277 | 419,744 |
| Total Program Expenses | <u>15,370,047</u> | <u>14,378,965</u> |
| Change in Net Position | (446,219) | (368,521) |
| Net Position - Beginning of Year | <u>\$29,439,464</u> | <u>\$29,807,985</u> |
| Net Position - End of Year | <u>\$28,993,245</u> | <u>\$29,439,464</u> |

The District revenues are mainly from three sources. Income taxes, property taxes levied for general, special revenue, debt services, and capital projects purposes and grants and entitlements comprised 75% of the District's revenues for governmental activities.

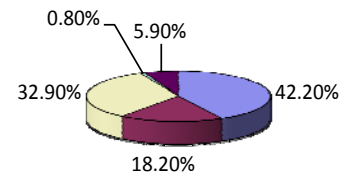
**Mount Gilead Exempted Village School District
Management’s Discussion and Analysis
For the Fiscal Year Ended June 30, 2014
(Unaudited)**

The District depends greatly on both income and property taxes as a revenue source. The unique nature of property taxes in Ohio creates the need to routinely seek voter approval for operating funds. The overall revenues generated by a levy will not increase solely as a result of inflation. As an example, a homeowner with a home valued at \$100,000 and taxed at 1.0 mill would pay \$100.00 annually in taxes. If three years later the home were reappraised and increased to \$200,000 (and this inflationary increase in value is comparable to other property owners) the effective tax rate would become .5 mills and the owner would still pay \$100.00.

Thus Ohio districts do not collect additional property tax revenue on the increased value of homes that is due to appreciation and must regularly return to the voters to maintain a constant level of service. Property and income taxes made up 33% of revenue for governmental activities for the District in fiscal year 2014.

**Governmental Activities
Revenue Sources**

| Revenue Sources | 2014 | Percent of Total |
|----------------------|---------------------|---------------------|
| General Grants | \$6,297,981 | 42.2% |
| Program Revenues | 2,719,976 | 18.2% |
| General Tax Revenues | 4,917,971 | 32.9% |
| Investment Earnings | 113,282 | 0.8% |
| Other Revenues | 874,618 | 5.9% |
| | <u>\$14,923,828</u> | <u>100.0%</u> |



Instruction comprises 55% of governmental program expenses. Support services expenses were 36% of governmental program expenses. All other program expenses including interest expense were 9%. Interest expense was attributable to the outstanding bond and borrowing for capital projects.

Total General Revenue increased from 2013 to 2014 mainly due to a slight increase in grants and entitlements from foundation, income taxes and state and federal grants. Total expenses also increased from 2013 to 2014 as there was a slight increase in instruction, support services and other program expenses due to increases in personnel costs and general inflationary factors.

Governmental Activities

The Statement of Activities shows the cost of program services and the charges for services and sales and operating grants and contributions offsetting those services. Table 3 shows, for government 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, investment earnings and other revenues.

This Space Intentionally Left Blank

Mount Gilead Exempted Village School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2014
(Unaudited)

Table 3
Governmental Activities

| | Total Cost of Services | | Net Cost of Services | |
|---|------------------------|---------------------|-----------------------|-----------------------|
| | 2014 | 2013 | 2014 | 2013 |
| Instruction | \$8,414,127 | \$7,789,783 | (\$6,690,672) | (\$6,061,830) |
| Support Services: | | | | |
| Pupil and Instructional Staff | 1,549,178 | 1,763,707 | (1,240,869) | (1,569,432) |
| School Administrative, General | | | | |
| Administration and Fiscal | 1,698,192 | 1,427,742 | (1,693,874) | (1,426,713) |
| Operations and Maintenance | 1,528,395 | 1,390,248 | (1,525,205) | (1,386,517) |
| Pupil Transportation | 764,309 | 664,507 | (738,551) | (637,013) |
| Central | 18,013 | 16,022 | (17,851) | (16,022) |
| Operation of Non-Instructional Services | 658,190 | 572,850 | (206,914) | (77,818) |
| Extracurricular Activities | 357,366 | 334,362 | (153,858) | (154,425) |
| Interest and Fiscal Charges | 382,277 | 419,744 | (382,277) | (419,744) |
| Total Expenses | <u>\$15,370,047</u> | <u>\$14,378,965</u> | <u>(\$12,650,071)</u> | <u>(\$11,749,514)</u> |

The District's Funds

The District has two major governmental funds: the General Fund and the Debt Service Fund. Assets of the general and debt service fund comprised \$10,071,613 (89%) of the total \$11,283,656 governmental funds' assets.

General Fund: Fund balance at June 30, 2014 was \$3,199,189, an increase in fund balance of \$177,066 from 2013. The primary reason for the increase in fund balance was the increase in intergovernmental revenue, mainly due to an increase in foundation payments to the District. Total instructional expenditures increased mainly due to increases in personnel costs and general inflationary factors.

Debt Service Fund: Fund balance at June 30, 2014 was \$1,732,753, an increase in fund balance of \$51,518, which was mainly due to the proceeds received from the issuance of the 2014 Bus Acquisition Bonds.

General Fund Budgeting Highlights

The 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 2014, the District amended its general fund budget at times, however none were significant. The District's budgeting systems are designed to tightly control total site budgets but provide flexibility for site management. During the course of the year, the District revised the budget in an attempt to deal with unexpected changes in revenues and expenditures.

For the General Fund, the original and final budgeted revenue was \$11,687,244.

**Mount Gilead Exempted Village School District
Management’s Discussion and Analysis
For the Fiscal Year Ended June 30, 2014
(Unaudited)**

The District’s final budgeted revenue when compared to the actual revenue had a variance of \$175,240 mostly due to underestimates in taxes and intergovernmental revenue. The District’s final budgeted expenditures and other financing uses when compared to actual expenditures and other financing uses had a variance of (\$632,157), mostly due to the underestimates in instruction and operation and maintenance expenditures. The District’s ending unobligated actual fund balance for the General fund was \$2,722,946.

Capital Assets and Long-Term Obligations

Capital Assets

At the fiscal year end, the District had \$29,964,446 invested in land, land improvements, buildings and improvements, and equipment. Table 4 shows fiscal year 2014 balances compared to fiscal year 2013:

**Table 4
Capital Assets at Year End
(Net of Depreciation)**

| | Governmental Activities | |
|----------------------------|-------------------------|---------------------|
| | 2014 | 2013 |
| Land | \$26,121 | \$26,121 |
| Land Improvements | 53,365 | 84,605 |
| Buildings and Improvements | 29,563,276 | 30,188,957 |
| Equipment | 321,684 | 397,232 |
| Total Net Capital Assets | <u>\$29,964,446</u> | <u>\$30,696,915</u> |

Overall, capital assets decreased due to current year depreciation expense exceeding current year additions.

See note 7 in the notes to the basic financial statements for further details on the District’s capital assets.

Long-Term Obligations

At June 30, 2014, the District had \$8,325,304 in bonds and capital leases outstanding, \$631,408 due within one year. Table 5 summarizes bonds outstanding.

This Space Intentionally Left Blank

**Mount Gilead Exempted Village School District
Management’s Discussion and Analysis
For the Fiscal Year Ended June 30, 2014
(Unaudited)**

**Table 5
Outstanding Debt at Year End**

| | Governmental Activities | |
|---------------------------------|-------------------------|--------------------|
| | 2014 | 2013 Restated |
| 2014 Bus Acquisition Bonds | \$140,622 | \$0 |
| 2000 Capital Appreciation Bonds | 9,986 | 9,986 |
| 2000 Accreted Interest Bonds | 637,072 | 602,754 |
| 2005 Refunding Bonds | 5,230,000 | 5,230,000 |
| 2005 Capital Appreciation Bonds | 150,000 | 325,000 |
| 2005 Accreted Interest Bonds | 214,225 | 437,582 |
| 2011 Refunding Bonds | 415,000 | 515,000 |
| 2011 Capital Appreciation Bonds | 45,000 | 45,000 |
| 2011 Accreted Interest Bonds | 25,347 | 14,934 |
| Premium on 2005 Refunding Bonds | 27,936 | 33,524 |
| Premium on Refunding Bonds | 325,116 | 347,667 |
| Lease - Purchase Agreement | 1,105,000 | 1,136,000 |
| Total | <u>\$8,325,304</u> | <u>\$8,697,447</u> |

See notes 8 and 9 in the notes to the basic financial statements for further details on the District’s outstanding debt.

For the Future

The 2010-11 biennial budget (Am. Sub. HBI of the 128th General Assembly) established another new funding formula called the Evidence-Based Model (EBM). Am. Sub. HB 153 of the 129th General Assembly repealed the EBM and implemented a temporary funding formula, the Bridge Formula, for the 12-13 school year as a new funding formula was developed. The State revised the funding model in June, 2013 and adopted HB 59, the FY 14 and FY 15 biennium budget which again changed our funding formula, but not our funding.

All of the District’s financial abilities will be needed to meet the challenges of the future. With careful planning and monitoring of the District’s finances, the District’s management is confident that the District can continue to provide a quality education for our students and provide a secure financial future.

Contacting the District’s Financial Management

This financial report is designed to provide our citizens, taxpayers, and investors and creditors with a general overview of the District’s finances and to show the District’s accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Treasurer’s office at Mount Gilead Exempted Village School District, 145 North Cherry Street, Mount Gilead, Ohio 43338.

Mount Gilead Exempted Village School District, Ohio
Statement of Net Position
June 30, 2014

| | Governmental Activities | Component Unit | Total |
|---|----------------------------|--------------------|---------------------|
| Assets: | | | |
| Equity in Pooled Cash and Investments | \$6,560,912 | \$611,973 | \$7,172,885 |
| Receivables (Net): | | | |
| Taxes | 5,447,837 | 0 | 5,447,837 |
| Accounts | 34,040 | 2,960 | 37,000 |
| Interest | 2,406 | 0 | 2,406 |
| Intergovernmental | 186,823 | 558,333 | 745,156 |
| Due from component unit | 83,462 | 0 | 83,462 |
| Nondepreciable Capital Assets | 26,121 | 0 | 26,121 |
| Depreciable Capital Assets, Net | 29,938,325 | 157,219 | 30,095,544 |
| Total Assets | 42,279,926 | 1,330,485 | 43,610,411 |
| Deferred Outflows of Resources: | | | |
| Deferred Charge on Refunding | 243,651 | 0 | 243,651 |
| Total Deferred Outflows of Resources | 243,651 | 0 | 243,651 |
| Liabilities: | | | |
| Accrued Wages and Benefits | 1,143,632 | 0 | 1,143,632 |
| Accrued Interest Payable | 23,606 | 0 | 23,606 |
| Claims Payable | 125,000 | 0 | 125,000 |
| Due to Primary Government | 0 | 83,462 | 83,462 |
| Long-Term Liabilities: | | | |
| Due Within One Year | 681,662 | 0 | 681,662 |
| Due In More Than One Year | 8,007,255 | 0 | 8,007,255 |
| Total Liabilities | 9,981,155 | 83,462 | 10,064,617 |
| Deferred Inflows of Resources: | | | |
| Property Taxes | 3,549,177 | 0 | 3,549,177 |
| Total Deferred Inflows of Resources | 3,549,177 | 0 | 3,549,177 |
| Net Position: | | | |
| Net Investment in Capital Assets | 23,247,373 | 157,219 | 23,404,592 |
| Restricted for: | | | |
| Debt Service | 1,822,593 | 0 | 1,822,593 |
| Capital Projects | 643,394 | 0 | 643,394 |
| Facilities Maintenance | 212,970 | 0 | 212,970 |
| Federally Funded Programs | 0 | 1,313 | 1,313 |
| Auxiliary Services | 48,874 | 0 | 48,874 |
| Federal Grants | 72,232 | 0 | 72,232 |
| Other Purposes | 32,566 | 0 | 32,566 |
| Unrestricted | 2,913,243 | 1,088,491 | 4,001,734 |
| Total Net Position | \$28,993,245 | \$1,247,023 | \$30,240,268 |

See accompanying notes to the basic financial statements.

Mount Gilead Exempted Village School District, Ohio
Statement of Activities
For the Fiscal Year Ended June 30, 2014

| | Expenses | Program Revenues | |
|---|---------------------|--------------------------------|------------------------------------|
| | | Charges for Services and Sales | Operating Grants and Contributions |
| Governmental Activities: | | | |
| Instruction: | | | |
| Regular | \$5,451,545 | \$593,810 | \$304,660 |
| Special | 1,473,682 | 7,554 | 723,205 |
| Vocational | 278,845 | 0 | 94,226 |
| Other | 1,210,055 | 0 | 0 |
| Support Services: | | | |
| Pupil | 1,106,230 | 0 | 0 |
| Instructional Staff | 442,948 | 0 | 308,309 |
| General Administration | 32,203 | 0 | 0 |
| School Administration | 1,132,471 | 0 | 2,757 |
| Fiscal | 533,518 | 0 | 1,561 |
| Operations and Maintenance | 1,528,395 | 159 | 3,031 |
| Pupil Transportation | 764,309 | 0 | 25,758 |
| Central | 18,013 | 0 | 162 |
| Operation of Non-Instructional Services | 658,190 | 103,336 | 347,940 |
| Extracurricular Activities | 357,366 | 203,508 | 0 |
| Interest and Fiscal Charges | 382,277 | 0 | 0 |
| Total Governmental Activities | 15,370,047 | 908,367 | 1,811,609 |
| Component Unit: | | | |
| Tomorrow Center | 1,134,160 | 0 | 1,646,537 |
| Totals | \$16,504,207 | \$908,367 | \$3,458,146 |

General Revenues:

- Income Taxes
- Property Taxes Levied for:
 - General Purposes
 - Special Revenue Purposes
 - Debt Service Purposes
 - Capital Projects Purposes
- Grants and Entitlements, Not Restricted
- Investment Earnings
- Other Revenues

Total General Revenues

Change in Net Position

Net Position - Beginning of Year, Restated

Net Position - End of Year

See accompanying notes to the basic financial statements.

| Net (Expense) Revenue and Changes in Net Position | | |
|--|--------------------|---------------------|
| Governmental Activities | Component Unit | Total |
| (\$4,553,075) | \$0 | (\$4,553,075) |
| (742,923) | 0 | (742,923) |
| (184,619) | 0 | (184,619) |
| (1,210,055) | 0 | (1,210,055) |
| (1,106,230) | 0 | (1,106,230) |
| (134,639) | 0 | (134,639) |
| (32,203) | 0 | (32,203) |
| (1,129,714) | 0 | (1,129,714) |
| (531,957) | 0 | (531,957) |
| (1,525,205) | 0 | (1,525,205) |
| (738,551) | 0 | (738,551) |
| (17,851) | 0 | (17,851) |
| (206,914) | 0 | (206,914) |
| (153,858) | 0 | (153,858) |
| (382,277) | 0 | (382,277) |
| <u>(12,650,071)</u> | <u>0</u> | <u>(12,650,071)</u> |
| <u>0</u> | <u>512,377</u> | <u>512,377</u> |
| <u>(12,650,071)</u> | <u>512,377</u> | <u>(12,137,694)</u> |
| 1,472,263 | 0 | 1,472,263 |
| 2,575,605 | 0 | 2,575,605 |
| 57,631 | 0 | 57,631 |
| 780,387 | 0 | 780,387 |
| 32,085 | 0 | 32,085 |
| 6,297,981 | 0 | 6,297,981 |
| 113,282 | 354 | 113,636 |
| 874,618 | 22,694 | 897,312 |
| <u>12,203,852</u> | <u>23,048</u> | <u>12,226,900</u> |
| (446,219) | 535,425 | 89,206 |
| <u>29,439,464</u> | <u>711,598</u> | <u>30,151,062</u> |
| <u>\$28,993,245</u> | <u>\$1,247,023</u> | <u>\$30,240,268</u> |

Mount Gilead Exempted Village School District, Ohio
Balance Sheet
Governmental Funds
June 30, 2014

| | General | Debt Service | Other Governmental Funds | Total Governmental Funds |
|--|---------------------------|---------------------------|--------------------------------|--------------------------------|
| Assets: | | | | |
| Equity in Pooled Cash and Investments | \$2,908,185 | \$1,544,152 | \$930,459 | \$5,382,796 |
| Receivables (Net): | | | | |
| Taxes | 4,544,284 | 808,792 | 94,761 | 5,447,837 |
| Accounts | 34,040 | 0 | 0 | 34,040 |
| Interest | 2,406 | 0 | 0 | 2,406 |
| Intergovernmental | 0 | 0 | 186,823 | 186,823 |
| Interfund | 146,292 | 0 | 0 | 146,292 |
| Due from component unit | 83,462 | 0 | 0 | 83,462 |
| Total Assets | <u>7,718,669</u> | <u>2,352,944</u> | <u>1,212,043</u> | <u>11,283,656</u> |
| Liabilities: | | | | |
| Accrued Wages and Benefits | 1,051,829 | 0 | 91,803 | 1,143,632 |
| Interfund Payable | 0 | 0 | 146,292 | 146,292 |
| Total Liabilities | <u>1,051,829</u> | <u>0</u> | <u>238,095</u> | <u>1,289,924</u> |
| Deferred Inflows of Resources: | | | | |
| Property Taxes | 3,466,960 | 620,191 | 73,376 | 4,160,527 |
| Grants and Other Taxes | 0 | 0 | 186,823 | 186,823 |
| Investment Earnings | 691 | 0 | 0 | 691 |
| Total Deferred Inflows of Resources | <u>3,467,651</u> | <u>620,191</u> | <u>260,199</u> | <u>4,348,041</u> |
| Fund Balances: | | | | |
| Restricted | 0 | 1,732,753 | 930,459 | 2,663,212 |
| Assigned | 1,016,993 | 0 | 0 | 1,016,993 |
| Unassigned | 2,182,196 | 0 | (216,710) | 1,965,486 |
| Total Fund Balances | <u>3,199,189</u> | <u>1,732,753</u> | <u>713,749</u> | <u>5,645,691</u> |
| Total Liabilities, Deferred Inflows and Fund Balances | <u>\$7,718,669</u> | <u>\$2,352,944</u> | <u>\$1,212,043</u> | <u>\$11,283,656</u> |

See accompanying notes to the basic financial statements.

Mount Gilead Exempted Village School District, Ohio
 Reconciliation of Total Governmental Fund Balance to
 Net Position of Governmental Activities
 June 30, 2014

| | | |
|--|----------------|----------------------------|
| Total Governmental Fund Balance | | \$5,645,691 |
| Amounts reported for governmental activities in the statement of net position are different because: | | |
| Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. | | |
| Capital assets used in the operation of Governmental Funds | | 29,964,446 |
| Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds. | | |
| Delinquent Property Taxes | \$611,350 | |
| Interest | 691 | |
| Intergovernmental | <u>186,823</u> | |
| | | 798,864 |
| An internal service fund is used by management to charge back costs to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net position. | | |
| Internal Service Net Position | | 1,053,116 |
| In the statement of net position interest payable is accrued when incurred; whereas, in the governmental funds interest is reported as a liability only when it will require the use of current financial resources. | | |
| | | (23,606) |
| Some liabilities reported in the statement of net position do not require the use of current financial resources and, therefore, are not reported as liabilities in governmental funds. | | |
| Compensated Absences | | (363,613) |
| Deferred outflows associated with long-term liabilities are not reported in the funds. | | |
| | | 243,651 |
| Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds. | | |
| | | <u>(8,325,304)</u> |
| Net Position of Governmental Activities | | <u><u>\$28,993,245</u></u> |

See accompanying notes to the basic financial statements.

Mount Gilead Exempted Village School District, Ohio
Statement of Revenues, Expenditures
and Changes in Fund Balance
Governmental Funds
For the Fiscal Year Ended June 30, 2014

| | General | Debt Service | Other Governmental Funds | Total Governmental Funds |
|---|--------------------|--------------------|--------------------------------|--------------------------------|
| Revenues: | | | | |
| Property and Other Taxes | \$2,593,821 | \$782,883 | \$89,956 | \$3,466,660 |
| Income Taxes | 1,472,263 | 0 | 0 | 1,472,263 |
| Tuition and Fees | 604,386 | 0 | 0 | 604,386 |
| Investment Earnings | 6,652 | 0 | 110 | 6,762 |
| Intergovernmental | 7,041,669 | 102,494 | 953,638 | 8,097,801 |
| Extracurricular Activities | 122,230 | 0 | 80,535 | 202,765 |
| Charges for Services | 0 | 0 | 103,495 | 103,495 |
| Other Revenues | 872,338 | 0 | 0 | 872,338 |
| Total Revenues | 12,713,359 | 885,377 | 1,227,734 | 14,826,470 |
| Expenditures: | | | | |
| Current: | | | | |
| Instruction: | | | | |
| Regular | 4,605,450 | 0 | 269,054 | 4,874,504 |
| Special | 1,344,560 | 0 | 124,515 | 1,469,075 |
| Vocational | 261,715 | 0 | 0 | 261,715 |
| Other | 1,210,055 | 0 | 0 | 1,210,055 |
| Support Services: | | | | |
| Pupil | 1,130,468 | 0 | 0 | 1,130,468 |
| Instructional Staff | 183,316 | 0 | 265,068 | 448,384 |
| General Administration | 32,203 | 0 | 0 | 32,203 |
| School Administration | 1,146,298 | 0 | 7,536 | 1,153,834 |
| Fiscal | 503,728 | 26,993 | 1,896 | 532,617 |
| Operations and Maintenance | 1,242,817 | 0 | 200,641 | 1,443,458 |
| Pupil Transportation | 526,469 | 155,090 | 432 | 681,991 |
| Central | 10,467 | 0 | 19,710 | 30,177 |
| Operation of Non-Instructional Services | 8,760 | 0 | 589,156 | 597,916 |
| Extracurricular Activities | 187,610 | 0 | 97,337 | 284,947 |
| Capital Outlay | 116,249 | 0 | 0 | 116,249 |
| Debt Service: | | | | |
| Principal Retirement | 0 | 289,468 | 31,000 | 320,468 |
| Interest and Fiscal Charges | 26,128 | 517,398 | 27,351 | 570,877 |
| Total Expenditures | 12,536,293 | 988,949 | 1,633,696 | 15,158,938 |
| Excess of Revenues Over (Under) Expenditures | 177,066 | (103,572) | (405,962) | (332,468) |
| Other Financing Sources (Uses): | | | | |
| Issuance of Long-Term Capital-Related Debt | 0 | 155,090 | 0 | 155,090 |
| Total Other Financing Sources (Uses) | 0 | 155,090 | 0 | 155,090 |
| Net Change in Fund Balance | 177,066 | 51,518 | (405,962) | (177,378) |
| Fund Balance - Beginning of Year | 3,022,123 | 1,681,235 | 1,119,711 | 5,823,069 |
| Fund Balance - End of Year | \$3,199,189 | \$1,732,753 | \$713,749 | \$5,645,691 |

See accompanying notes to the basic financial statements.

Mount Gilead Exempted Village School District, Ohio
 Reconciliation of the Statement of Revenues, Expenditures, and Changes
 in Fund Balance of Governmental Funds to the Statement of Activities
 For the Fiscal Year Ended June 30, 2014

Net Change in Fund Balance - Total Governmental Funds (\$177,378)

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital asset additions as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of the difference between capital asset additions and depreciation in the current period.

| | | |
|--|-----------|-----------|
| Capital assets used in governmental activities | \$57,700 | |
| Depreciation Expense | (790,169) | |
| | | (732,469) |

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.

| | | |
|---------------------------|------------|--------|
| Delinquent Property Taxes | (\$20,952) | |
| Interest | 448 | |
| Intergovernmental | 117,862 | |
| | | 97,358 |

Repayment of bond, accreted interest and capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.

| | | |
|---|-----------|---------|
| General Obligation Bonds | \$114,468 | |
| Capital Appreciation Bonds | 175,000 | |
| Accreted Interest on Capital Appreciation Bonds | 285,000 | |
| Capital Leases | 31,000 | |
| | | 605,468 |

In the statement of activities interest expense is accrued when incurred; whereas, in governmental funds an interest expenditure is reported when due.

79

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 | | 148,318 |
|----------------------|--|---------|

In the statement of activities, bond premium and gain/loss on refunding are amortized over the term of the bonds, whereas in governmental funds, an interest expenditure is reported when bonds are issued.

| | | |
|--|-----------|----------|
| Amortization of Bond Premium | \$28,139 | |
| Amortization of Deferred Charge on Refunding | (18,244) | |
| Bond Accretion | (106,374) | |
| | | (96,479) |

The internal service fund used by management to charge back costs to individual funds is not reported in the entity-wide statement of activities. Governmental fund expenditures and the related internal service fund revenues are eliminated. The net revenue (expense) of the internal service fund is allocated among the governmental activities.

| | | |
|---|--|-----------|
| Change in Net Position - Internal Service Funds | | (136,026) |
|---|--|-----------|

Proceeds from debt issues are an other financing source in the funds, but a debt issue increases long-term liabilities in the statement of net position.

(155,090)

| | | |
|---|--|--------------------|
| Change in Net Position of Governmental Activities | | <u>(\$446,219)</u> |
|---|--|--------------------|

See accompanying notes to the basic financial statements.

Mount Gilead Exempted Village School District, Ohio
Statement of Net Position
Proprietary Fund
June 30, 2014

| | <u>Governmental Activities- Internal Service Fund</u> |
|---------------------------------------|---|
| Current Assets: | |
| Equity in Pooled Cash and Investments | <u>\$1,178,116</u> |
| Total Current Assets | <u>1,178,116</u> |
| Liabilities: | |
| Current Liabilities: | |
| Claims Payable | <u>125,000</u> |
| Total Current Liabilities | <u>125,000</u> |
| Net Position: | |
| Unrestricted | <u>1,053,116</u> |
| Total Net Position | <u>\$1,053,116</u> |

See accompanying notes to the basic financial statements.

Mount Gilead Exempted Village School District, Ohio
Statement of Revenues, Expenses
and Changes in Fund Net Position
Proprietary Fund
For the Fiscal Year Ended June 30, 2014

| | <u>Governmental Activities- Internal Service Fund</u> |
|---|---|
| Operating Revenues: | |
| Charges for Services | <u>\$1,301,786</u> |
| Total Operating Revenues | <u>1,301,786</u> |
| Operating Expenses: | |
| Personal Services | 256,180 |
| Contractual Services | <u>1,182,080</u> |
| Total Operating Expenses | <u>1,438,260</u> |
| Operating Income (Loss) | <u>(136,474)</u> |
| Non-Operating Revenues (Expenses): | |
| Investment Earnings | <u>448</u> |
| Total Non-Operating Revenues (Expenses) | <u>448</u> |
| Change in Net Position | (136,026) |
| Net Position - Beginning of Year | <u>1,189,142</u> |
| Net Position - End of Year | <u><u>\$1,053,116</u></u> |

See accompanying notes to the basic financial statements.

Mount Gilead Exempted Village School District, Ohio
Statement of Cash Flows
Proprietary Fund
For the Fiscal Year Ended June 30, 2014

| | <u>Governmental Activities- Internal Service Fund</u> |
|--|---|
| Cash Flows from Operating Activities: | |
| Cash Received from Customers | \$1,301,786 |
| Cash Payments to Employees | (256,180) |
| Cash Payments to Suppliers | <u>(1,170,826)</u> |
| Net Cash Provided (Used) by Operating Activities | <u>(125,220)</u> |
| Cash Flows from Investing Activities: | |
| Earnings on Investments | <u>448</u> |
| Net Cash Provided (Used) by Cash Flows from Investing Activities | <u>448</u> |
| Net Increase (Decrease) in Cash and Investments | (124,772) |
| Cash and Cash Investments - Beginning of Year | <u>1,302,888</u> |
| Cash and Investments - End of Year | <u><u>1,178,116</u></u> |
| Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities | |
| Operating Income (Loss) | (136,474) |
| Changes in Assets & Liabilities: | |
| Increase (Decrease) in Claims Payables | <u>11,254</u> |
| Net Cash Provided (Used) by Operating Activities | <u><u>(\$125,220)</u></u> |

See accompanying notes to the basic financial statements.

Mount Gilead Exempted Village School District, Ohio
Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2014

| | <u>Scott Morrison Memorial Fund</u> | <u>Agency</u> |
|---------------------------------------|---|-----------------|
| Assets: | | |
| Equity in Pooled Cash and Investments | <u>\$5,622</u> | <u>\$25,333</u> |
| Total Assets | <u>5,622</u> | <u>25,333</u> |
| Liabilities: | | |
| Other Liabilities | <u>0</u> | <u>25,333</u> |
| Total Liabilities | <u>0</u> | <u>\$25,333</u> |
| Net Position: | | |
| Held in Trust | <u>5,622</u> | |
| Total Net Position | <u><u>\$5,622</u></u> | |

See accompanying notes to the basic financial statements.

Mount Gilead Exempted Village School District, Ohio
Statement of Changes in Fiduciary Net Position
Private Purpose Trust Fund
For the Fiscal Year Ended June 30, 2014

| | <u>Scott Morrison Memorial Fund</u> |
|----------------------------------|---|
| Additions: | |
| Donations | <u>\$300</u> |
| Total Additions | <u>300</u> |
| Deductions: | |
| Scholarships | <u>0</u> |
| Total Deductions | <u>0</u> |
| Change in Net Position | 300 |
| Net Position - Beginning of Year | <u>5,322</u> |
| Net Position - End of Year | <u>\$5,622</u> |

See accompanying notes to the basic financial statements.

Mount Gilead Exempted Village School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014

Note 1 - Description of the School District

The Mount Gilead Exempted Village School District (the "District") is located in Morrow County, including all of the Village of Mount Gilead, Ohio, and portions of surrounding townships. The District serves an area of approximately 68 square miles.

The District was established in 1873 through the consolidation of existing land areas and school districts, and in 1960, the Edison School District also became part of the Mount Gilead Exempted Village School District. The District is organized under Sections 2 and 3, Article VI of the Constitution of the State of Ohio. Under such laws, there is no authority for a school district to have a charter or adopt local laws. The legislative power of the school district is vested in the Board of Education, consisting of five members elected at large for staggered four year terms.

The District ranks as the 419th largest by enrollment among the 905 public school districts and community schools in the State and the 2nd largest in Morrow County. It currently operates one elementary school and one combined building for the middle school and high school. The District employs 40 non-certified and 94 certified employees to provide services to approximately 1,306 students in grades K through 12 and various community groups.

Note 2 - Summary of Significant Accounting Policies

The basic financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America (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 District's significant accounting policies are described below.

Reporting Entity

The reporting entity has been defined in accordance with GASB Statement No. 14, "The Financial Reporting Entity" as amended by GASB Statement No. 39, "Determining Whether Certain Organizations Are Component Units" and GASB Statement No. 61, "The Financial Reporting Entity: Omnibus an Amendment of GASB Statements No. 14 and No. 34". The reporting entity is composed of the primary government and component units. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the District. For the District, this includes general operations, food service, and student related activities of the District.

Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the organization's Governing Board and (1) the District is able to significantly influence the programs or services performed or provided by the organization; or (2) the District is legally entitled to or can otherwise access the organization's resources; or (3) the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or (4) the District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the District in that the District approves the budget, the issuance of debt or the levying of taxes. Certain organizations are also included as component units if the nature and significance of the relationship between the primary government and the organization is such that exclusion by the primary government would render the primary government's financial statements incomplete or misleading. Based upon the application of these criteria, the District has one

Mount Gilead Exempted Village School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014

component unit. The basic financial statements of the reporting entity include those of the District (the primary government) and those of The Tomorrow Center Community School (component unit).

The following organizations are described due to their relationship to the District:

Discretely Presented Component Unit

The Tomorrow Center Community School (Center) The Center is a legally separate, conversion community school, serviced by a Board of Directors. The Center focuses on serving students at risk of or already in therapeutic residential placement and provides an alternative to the traditional educational setting. The Center was organized under Ohio Revised Code Chapter 3314 and the District is the sponsor. The Center was founded utilizing existing programs within the existing structure of the District. The employees of the Center remain part of the collective bargaining unit of the District. Based on the significant services provided by the District to the Center and the Center's purpose of serving the students within the District, the Center is reflected as a component unit of the District. The Center is reported separately to emphasize that it is legally separate from the District. The Center paid the District \$610,767 for contract services provided by the District during fiscal year 2014. Separately issued financial statements for the Center can be obtained from the Treasurer of the Tomorrow Center Community School, Trevor Gummere, at 145 North Cherry Street, P.O. Box 239, Mount Gilead, Ohio 43338.

Information in the following notes to the basic financial statements is applicable to the primary government. Information relative to the component unit can be found in Note 21 to these basic financial statements.

Jointly Governed Organizations

Tri-Rivers Educational Computer Association (TRECA) TRECA is a jointly governed organization among 21 school districts. TRECA was formed for the purpose of applying modern technology (with the aid of computers and other electronic equipment) to the administrative and instructional functions of member districts. Each of the governments of these schools supports TRECA based upon a per pupil charge, dependent upon the software package utilized. In the event of dissolution of the organization, all current members will share in net obligations or asset liquidations in a ratio proportionate to their last twelve months' financial contributions. TRECA is governed by a Board of Directors consisting of superintendents of the member school districts. The degree of control exercised by any participating school district is limited to its representation on the Board. Financial information is available from Mike Carder, Director, at 2222 Marion/Mount Gilead Road, P.O. Box 239, Marion, Ohio 43302.

Tri Rivers Career Center The Tri Rivers Career Center (the "Career Center") is a distinct political subdivision of the State of Ohio. The Career Center is operated under the direction of a Board consisting of one representative from each of the participating school district's elected board, and one representative from the Educational Service Center of Central Ohio. The Career Center possesses its own budgeting and taxing authority. Financial information is available from the Tri Rivers Career Center, at 2222 Marion/Mount Gilead Road, Marion, Ohio 43302.

Mount Gilead Exempted Village School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014

Related Organization

Mount Gilead Public Library The Mount Gilead Public Library (the "Library") is a related organization to the District. The School Board members are responsible for appointing the trustees of the Public Library; however, the School Board cannot influence the Library's operation nor does the Library represent a potential financial benefit or burden to the District. Although the District does serve as the taxing authority and has issued tax related debt on behalf of the Library, its role is limited to a ministerial function. The Library may issue debt and determines its own budget. Library general obligation debt currently serviced by the District is described in Note 9 and 10.

Insurance Purchasing Pools

Medical Mutual of Ohio The District is a participant in an insurance purchasing pool called the Medical Mutual of Ohio for the purpose of providing medical/surgical, dental and vision insurance. The District is currently self-funded and will continue to be as it is financially able to moving forward and all considerations for changes or adjustments to the plan design will be considered.

Workers' Compensation The District has initiated a comprehensive change to Careworks out of Dublin, Ohio to bring the MCO (Manage Care Organization) and the Workers' Compensation to an integrated deployment.

Fund Accounting

The 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.

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, deferred outflows of resources, liabilities and deferred inflows of resources are reported as fund balance.

The following are the District's major governmental funds:

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

Debt service fund - The debt service fund is used to account for the accumulation of resources and payment of general obligation bond principal and interest from governmental resources when the government is obligated in some manner for payment.

Other governmental funds of the District are used to account for (a) financial resources to be used for the acquisition, construction, or improvement of capital facilities other than those financed by

Mount Gilead Exempted Village School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014

proprietary funds; (b) grants and other resources whose use is restricted to a particular purpose; and (c) food service operations.

Proprietary Fund

Proprietary funds are used to account for the District's ongoing activities, which are similar to those often found in the private sector. The District has no enterprise funds. The following is a description of the District's internal service fund:

Internal service fund - The internal service fund is used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the District, or to other governments, on a cost-reimbursement basis. The only internal service fund of the District accounts for a self-insurance program, which provides medical/surgical, dental and vision benefits to employees.

Fiduciary Funds

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

Basis of Presentation and Measurement Focus

Government-wide financial statements - The statement of net position and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. Internal service fund operating activity is eliminated to avoid overstatement of revenues and expenses.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the governmental activities of the District. 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 amounts paid by the recipient of goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues not classified as program revenues are presented as general revenues of the District.

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

Fund financial statements - Fund financial statements report detailed information about the District. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column, and all nonmajor funds are aggregated into one

Mount Gilead Exempted Village School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014

column. The internal service fund is presented in a single column on the face of the proprietary fund statements. Fiduciary funds are reported by fund type.

All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets, deferred outflows of resources, 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, the internal service fund is accounted for on a flow of economic resources measurement focus. All assets, deferred outflows of resources, liabilities and deferred inflows of resources associated with the operation of this fund are included on the statement of fund net position. The statement of changes in fund net position presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary activity.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operation. The principal operating revenue of the District's internal service fund is sales and charges for services. Operating expenses for internal service funds include the claims and purchased services. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Agency funds do not report a measurement focus as they do not report operations.

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. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting.

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 District, available means expected to be received within sixty days of fiscal year end.

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, income taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from income taxes is recognized in the period in which the income is earned. Revenue from grants,

Mount Gilead Exempted Village School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014

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

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at fiscal year end: property taxes available as an advance, school district income tax, tuition and grants.

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

In addition to liabilities, the statements of financial position report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. For the District, deferred inflows of resources include property taxes, grants and other taxes (which includes tax incremental financing 'TIF') and investment earnings. Property taxes represent amounts for which there is an enforceable legal claim as of June 30, 2014, but which were levied to finance year 2015 operations. These amounts have been recorded as deferred inflows on both the government-wide statement of net position and the governmental fund financial statements. Grants and other taxes, and investment earnings have been recorded as deferred inflows on the governmental fund financial statements.

Expenses/Expenditures - On the accrual basis of accounting, expenses are recognized at the time they are incurred. The entitlement value of donated commodities received during the year is reported in the statement of revenues, expenditures and changes in fund balances as an expenditure with a like amount reported as intergovernmental revenue.

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

Equity in Pooled Cash and Investments

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

Mount Gilead Exempted Village School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014

During fiscal year 2014, investments were limited to the State Treasury Asset Reserve of Ohio (STAR Ohio) and negotiable certificates of deposit.

Except for nonparticipating investment contracts, investments are reported at fair value, which is based on quoted market prices. Nonparticipating investment contracts, such as nonnegotiable certificates of deposit and repurchase agreements, are reported at cost.

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 shares price, which is the price the investment could be sold for on June 30, 2014.

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund or by policy of the Board of Education. Interest revenue credited to the general fund during fiscal year 2014 amounted to \$6,652 (none of which is attributable to other funds) and \$110 credited to other governmental funds.

For presentation on the basic financial statements, investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the District are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

An analysis of the District’s investment account at fiscal year end is provided later in the notes.

Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary fund. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net position, but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. During the year, the District maintained a capitalization threshold of \$5,000. 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. The District does not possess infrastructure.

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

| <u>Description</u> | <u>Governmental Activities Estimated Lives</u> |
|----------------------------|--|
| Land Improvements | 15 - 20 years |
| Buildings and Improvements | 20 - 70 years |
| Equipment | 5 -15 years |

Mount Gilead Exempted Village School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014

Interfund Activity

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

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables". These amounts are eliminated in the governmental activities column on the Statement of Net Position.

Compensated Absences

Compensated absences of the District consist of vacation leave and severance liability to the extent that payments to the employee for these absences are attributable to services already rendered and are not contingent on a specific event that is outside the control of the District and the employee.

In accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences", a liability for vacation leave is accrued if a) the employees' rights to payment are attributable to services already rendered; and b) it is probable that the employer will compensate the employees for the benefits through paid time off or other means, such as cash payment at termination or retirement. A liability for sick leave is accrued using the vesting method; i.e., the liability is based on the sick leave accumulated at June 30, 2014, by those employees who are currently eligible to receive termination (severance) payments, as well as those employees expected to become eligible in the future. For purposes of establishing a liability for sick leave on employees expected to become eligible to retire in the future, all employees age fifty or greater with at least ten years of service; or twenty years of service at any age were considered expected to become eligible to retire.

The total liability for vacation and sick leave payments has been calculated using pay rates in effect at June 30, 2014 and reduced to the maximum payment allowed by labor contract and/or statute, plus any applicable additional salary related payments.

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

For governmental fund financial statements, compensated absences are recognized as liabilities and expenditures as payments come due each period upon the occurrence of employee resignations and retirements. Compensated absences will be paid from the fund from which the employees' salaries are paid.

Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities and long-term obligations payable from the internal service fund are reported on the proprietary fund financial statements.

Mount Gilead Exempted Village School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014

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 and compensated absences 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 that will be paid from governmental funds are not recognized as a liability in the fund financial statements when due.

Fund Balance

In accordance with Governmental Accounting Standards Board Statement No. 54, Fund Balance Reporting, the District classifies its fund balance based on the purpose for which the resources were received and the level of constraint placed on the resources. The following categories are used:

Nonspendable – resources that are not in spendable form or have legal or contractual requirements to maintain the balance intact.

Restricted – resources that have external purpose restraints imposed on them by providers, such as creditors, grantors, or other regulators.

Committed – resources that are constrained for specific purposes that are internally imposed by the government at its highest level of decision making authority, the Board of Education. Those committed amounts cannot be used for any other purpose unless the Board of Education removes or changes the specified use by taking the same type of action (resolution) it employed to previously commit those amounts. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual obligations.

Assigned - Amounts in the assigned fund balance classification are intended to be used by the District for specific purposes, but do not meet the criteria to be classified as restricted nor committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the general fund, assigned amounts represent intended uses established by policies of the District Board of Education, which includes giving the Treasurer the authority to constrain monies for intended purposes. The Board of Education may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriation in the subsequent year's appropriated budget.

Unassigned – residual fund balance within the General Fund that is not restricted, committed, or assigned. In other governmental funds, the unassigned classification is used only to report a deficit cash balance resulting from incurred expenses for specific purposes exceeding amounts, which had been restricted, committed or assigned for said purposes.

The District applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted amounts are available. Similarly, the District considers committed, assigned, and unassigned fund balances, respectively, to be spent when expenditures are incurred for purposes for which any of the unrestricted fund balance classifications could be used.

Mount Gilead Exempted Village School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014

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, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Deferred outflows/inflows of resources 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 District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

The District applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position are available. Of the \$2,832,629 in restricted net position, none were restricted by enabling legislation.

Parochial School

Mount Gilead Christian School operates within the District's boundaries. Current State legislation provides funding to this parochial school. These monies are received and disbursed on behalf of the parochial school by the Treasurer of the District, as directed by the parochial school. The receipt and fiduciary responsibility of these State monies by the District is reflected in a nonmajor governmental fund for financial reporting purposes.

Estimates

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

Note 3 – Equity in Pooled Cash and Investments

The District maintains a cash and investment pool used by all funds. Each fund type's portion of this pool is displayed on the combined balance sheet as "Equity in Pooled Cash and Investments."

State statute requires the classification of monies held by the District into three categories:

Active Monies - Those monies required to be kept in a "cash" or "near cash" status for immediate use by the District. Such monies must by law be maintained either as cash in the District treasury, in depository accounts payable or withdrawable on demand.

Inactive Monies – Those monies not required for use within the current two year period of designated depositories. Ohio law permits inactive monies to be deposited or invested as certificates of deposit maturing not later than the end of the current period of designated depositories, or as savings or deposit accounts, including, but not limited to passbook accounts.

Interim Monies – Those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Ohio law permits interim monies to be invested or deposited in the following securities:

Mount Gilead Exempted Village School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014

- (1) Bonds, notes, or other obligations of or guaranteed by the United States, or those for which the faith of the United States is pledged for the payment of principal and interest.
- (2) Bonds, notes, debentures, or other obligations or securities issued by any federal governmental agency.
- (3) No-load money market mutual funds consisting exclusively of obligations described in (1) or (2) above and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions.
- (4) Interim deposits in the eligible institutions applying for interim monies to be evidenced by time certificates of deposit maturing not more than one year from date of deposit, or by savings or deposit accounts, including, but limited to, passbook accounts.
- (5) Bonds and other obligations of the State of Ohio.
- (6) The Ohio State Treasurer's investment pool (STAROhio and STAR Ohio Plus).
- (7) Commercial paper and banker's acceptances, which meet the requirements established by Ohio Revised Code, Sec. 135.142.
- (8) Under limited circumstances, corporate debt interests in either of the two highest rating classifications by at least two nationally recognized rating agencies.

Protection of the District's deposits is provided by the Federal Deposit Insurance Corporation, by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the treasurer by the financial institution or by a single collateral pool established by the financial institution to secure the repayment of all public moneys deposited with the institution.

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

Deposits

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District's policy for deposits is any balance not covered by depository insurance will be collateralized by the financial institutions with pledged securities. As of June 30, 2014, \$3,720,688 of the District's bank balance of \$4,220,688 was exposed to custodial risk because it was uninsured and

Mount Gilead Exempted Village School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014

collateralized with securities held by the pledging financial institution’s trust department or agent, but not in the District’s name.

At fiscal year end, the carrying amount of the District’s deposits was \$3,907,896 (including cash on hand \$2,314). Ohio Revised Code Chapter 135, Uniform Depository Act, authorizes pledging of pooled securities in lieu of specific securities. Specifically, a designated public depository may pledge a single pool of eligible securities to secure repayment of all public monies deposited in the financial institution, provided that all times the total value of the securities so pledged is at least equal to 105% of the total amount of all public deposits secured by the pool, including the portion of such deposits covered by any federal deposit insurance. During 2014, the District and public depositories complied with the provisions of these statutes.

Investments

As of June 30, 2014, the District had the following investments:

| Investment Type | Fair Value | Weighted Average Maturity (Years) |
|-------------------------------------|-------------|--------------------------------------|
| STAR Ohio | \$483,966 | 0.14 |
| Negotiable CDs | 2,200,005 | 0.56 |
| Total Fair Value | \$2,683,971 | |
| Portfolio Weighted Average Maturity | | 0.48 |

Interest Rate Risk - In accordance with the investment policy, the District manages its exposure to declines in fair values by limiting the total maturity of its investment portfolio to five years.

Credit Risk – It is the District’s policy to limit its investments that are not obligations of the U.S. Government or obligations explicitly guaranteed by the U.S. Government to investments, which have the highest credit quality rating issued by nationally recognized statistical rating organizations. Investments in Negotiable CDs were either rated AA3, BA2, BAA3 or were not rated by Moody’s Investors Service. Ohio law requires STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service. Investments in STAROhio were rated AAAM by Standard & Poors. Negotiable CDs were not rated by Standard & Poor’s and Fitch Ratings.

Concentration of Credit Risk – The District’s investment policy allows investments in U.S. Agencies or Instrumentalities. The District places no limit on the amount the District may invest in any one issuer. The District has 18% invested in STAROhio, and 82% invested in Negotiable CD’s.

Custodial Credit Risk is the risk that in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. All of the District’s securities are either insured and registered in the name of the District or at least registered in the name of the District.

Note 4 - Property Taxes

Property taxes are levied and assessed on a calendar year basis. Second half distributions occur in a new fiscal year. Property taxes include amounts levied against all real and public utility property located in the District. Real property taxes are levied after April 1 on the assessed value listed as of the prior

Mount Gilead Exempted Village School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014

January 1, the lien date. Public utility property taxes attached as a lien on December 31 of the prior year, were levied April 1 and are collected with real property taxes. Assessed values for real property taxes are established by State law at 35 percent of appraised market value. All property is required to be revalued every six years. Public utility property taxes are assessed on real property at 35 percent of true value.

Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established. The District receives property taxes from Morrow County. The County Auditor periodically advances to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2014, are available to finance fiscal year 2015 operations. The amount available for advance can vary based on the date the tax bills are sent.

Accrued property taxes receivable represents delinquent taxes outstanding and real property and public utility taxes that became measurable as of June 30, 2014. Although total property tax collections for the next fiscal year are measurable, only the amount available as an advance at June 30 is intended to finance current fiscal year operation and is reported as revenue at fiscal year-end. The receivable is therefore offset by a credit to deferred inflows of resources for that portion not intended to finance current fiscal operations.

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

The assessed value, by property classification, upon which taxes collected in 2014 were based as follows:

| | <u>Amount</u> |
|---|-----------------------------|
| Agricultural/Residential and Other Real Estate | \$128,606,320 |
| Public Utility Personal | <u>23,393,560</u> |
| Total | <u><u>\$151,999,880</u></u> |

Note 5 - School District Income Tax

During 2003, voters of the District passed a renewal of the 3/4% income tax, effective for five years and in 2008, the income tax was renewed. The tax is collected by the State of Ohio and remitted to the District quarterly. Total income tax revenue for fiscal year 2014, credited to the general fund, was \$1,472,263.

Note 6 – Receivables

Receivables at June 30, 2014, consisted of taxes, accounts, interest, intergovernmental grants and interfund. All receivables are considered collectible in full due to the ability to foreclose for the

Mount Gilead Exempted Village School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014

nonpayment of taxes, the stable condition of State programs, and the current year guarantee of federal funds. All are expected to be received within one year.

Note 7 - Capital Assets

Capital asset activity for the fiscal year ended June 30, 2014 was as follows:

| | Beginning Balance | Additions | Deletions | Ending Balance |
|--|----------------------------|---------------------------|-------------------|----------------------------|
| Governmental Activities | | | | |
| <i>Capital Assets, not being depreciated:</i> | | | | |
| Land | \$26,121 | \$0 | \$0 | \$26,121 |
| <i>Capital Assets, being depreciated:</i> | | | | |
| Land Improvements | 362,789 | 0 | 0 | 362,789 |
| Buildings and Improvements | 35,019,258 | 0 | 0 | 35,019,258 |
| Equipment | <u>2,772,271</u> | <u>57,700</u> | <u>34,081</u> | <u>2,795,890</u> |
| Totals at Historical Cost | <u>38,180,439</u> | <u>57,700</u> | <u>34,081</u> | <u>38,204,058</u> |
| Less Accumulated Depreciation: | | | | |
| Land Improvements | 278,184 | 31,240 | 0 | 309,424 |
| Buildings and Improvements | 4,830,301 | 625,681 | 0 | 5,455,982 |
| Equipment | <u>2,375,039</u> | <u>133,248</u> | <u>34,081</u> | <u>2,474,206</u> |
| Total Accumulated Depreciation | <u>7,483,524</u> | <u>790,169</u> | <u>34,081</u> | <u>8,239,612</u> |
| Governmental Activities Capital Assets, Net | <u><u>\$30,696,915</u></u> | <u><u>(\$732,469)</u></u> | <u><u>\$0</u></u> | <u><u>\$29,964,446</u></u> |

Depreciation expense was charged to governmental functions as follows:

| | |
|---|-------------------------|
| Instruction: | |
| Regular | \$490,364 |
| Special | 4,607 |
| Vocational | 17,130 |
| Support Services: | |
| Pupil | 3,183 |
| Instructional Staff | 13,999 |
| School Administration | 9,493 |
| Operations and Maintenance | 28,230 |
| Pupil Transportation | 129,651 |
| Operation of Non-Instructional Services | 21,093 |
| Extracurricular Activities | <u>72,419</u> |
| Total Depreciation Expense | <u><u>\$790,169</u></u> |

Note 8 - Capitalized Leases - Lessee Disclosure

Lease Purchase Agreement

On January 18, 2007, the District entered into a lease-purchase for school facilities construction through

Mount Gilead Exempted Village School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014

the OASBO Expanded Asset Pooled Financing Program. US Bank has been designated as trustee for the agreement. The source of revenue to fund the principal and interest payments is general operating revenue of the District. All of the District's projects were completed in fiscal year 2013.

The following is a summary of the District's future minimum annual payments to termination of the lease purchase agreement:

| Fiscal Year Ending June 30, | Long-Term Debt |
|---|--------------------|
| 2015 | \$82,094 |
| 2016 | 82,576 |
| 2017 | 81,989 |
| 2018 | 82,333 |
| 2019 | 81,608 |
| 2020-2024 | 409,290 |
| 2025-2029 | 410,250 |
| 2030-2034 | 411,237 |
| 2035 | 81,840 |
| Total Minimum Lease Payments | 1,723,217 |
| Less: Amount Representing Interest | (618,217) |
| Present Value of Minimum Lease Payments | <u>\$1,105,000</u> |

Note 9 - Long-Term Obligations

During the fiscal year 2014, the following changes occurred in governmental activities long-term obligations:

This space intentionally left blank

Mount Gilead Exempted Village School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014

| | Rate | Restated Beginning Balance | Additions | Deletions | Ending Balance | Due In One Year |
|--|-------|----------------------------------|-----------|-------------|-------------------|--------------------|
| Governmental Activities: | | | | | | |
| General Obligation Bonds: | | | | | | |
| 2014 Bus Acquisition Bonds | 3.45% | \$0 | \$155,090 | (\$14,468) | \$140,622 | \$29,408 |
| 2000 School Improvement Bond - | | | | | | |
| Capital Appreciation | | 9,986 | 0 | 0 | 9,986 | 5,708 |
| Accretion of Interest | | 602,754 | 34,318 | 0 | 637,072 | 334,292 |
| 2005 School Improvement Refunding Bonds - | | | | | | |
| Current Interest | 3.25% | 5,230,000 | 0 | 0 | 5,230,000 | 130,000 |
| Capital Appreciation | | 325,000 | 0 | (175,000) | 150,000 | 0 |
| Accretion of Interest | | 437,582 | 61,643 | (285,000) | 214,225 | 0 |
| Premium | | 347,667 | 0 | (22,551) | 325,116 | 0 |
| 2011 Library Improvement Refunding Bonds - | | | | | | |
| Current Interest | 2.26% | 515,000 | 0 | (100,000) | 415,000 | 100,000 |
| Capital Appreciation | | 45,000 | 0 | 0 | 45,000 | 0 |
| Accretion of Interest | | 14,934 | 10,413 | 0 | 25,347 | 0 |
| Premium | | 33,524 | 0 | (5,588) | 27,936 | 0 |
| Total General Obligation Bonds | | 7,561,447 | 261,464 | (602,607) | 7,220,304 | 599,408 |
| Capital Leases: | | | | | | |
| Lease Purchase Agreement | | 1,136,000 | 0 | (31,000) | 1,105,000 | 32,000 |
| Total Capital Leases | | 1,136,000 | 0 | (31,000) | 1,105,000 | 32,000 |
| Total Long-Term Debt | | 8,697,447 | 261,464 | (633,607) | 8,325,304 | 631,408 |
| Compensated Absences | | 511,931 | 96,352 | (244,670) | 363,613 | 50,254 |
| Total Long-Term Liabilities | | \$9,209,378 | \$357,816 | (\$878,277) | \$8,688,917 | \$681,662 |

General obligation bonds will be paid from the debt service fund. Capital leases will be paid from the permanent improvement fund. Compensated absences will be paid from the fund from which the person is paid.

Principal and interest requirements to retire long-term obligations outstanding at year end are as follows:

| Fiscal Year Ending June 30 | General Obligation Bonds | | | Capital Appreciation Bonds | | |
|-------------------------------|--------------------------|-------------|-------------|----------------------------|----------------------|-------------|
| | Principal | Interest | Total | Principal | Accreted Interest | Total |
| 2015 | \$259,408 | \$224,573 | \$483,981 | \$5,708 | \$334,292 | \$340,000 |
| 2016 | 270,423 | 214,697 | 485,120 | 4,278 | 335,722 | 340,000 |
| 2017 | 31,490 | 212,800 | 244,290 | 195,000 | 380,000 | 575,000 |
| 2018 | 612,586 | 199,784 | 812,370 | 0 | 0 | 0 |
| 2019 | 621,715 | 176,387 | 798,102 | 0 | 0 | 0 |
| 2020-2024 | 2,810,000 | 536,020 | 3,346,020 | 0 | 0 | 0 |
| 2025-2029 | 1,180,000 | 82,524 | 1,262,524 | 0 | 0 | 0 |
| Total | \$5,785,622 | \$1,646,785 | \$7,432,407 | \$204,986 | \$1,050,014 | \$1,255,000 |

Prior Year Defeasance of Debt

In prior years, the District defeased certain general obligation bonds by placing the proceeds of the new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included on the

Mount Gilead Exempted Village School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014

District's financial statements. On June 30, 2014, the bonds outstanding that were considered defeased had a balance of zero.

Note 10 - Risk Management

Comprehensive

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2014, the District contracted with Indiana Insurance for general liability insurance, property insurance and commercial umbrella insurance.

Indiana Insurance provides general liability coverage. The general liability coverage insures up to \$1,000,000 each occurrence and \$2,000,000 aggregate.

Indiana Insurance provides property, crime, and equipment breakdown insurance coverage. The property coverages insure up to a blanket limit of \$54,500,000 with a \$2,500 deductible, and commercial crime covers up to \$10,000 for theft, disappearance and destruction and \$25,000 for employee dishonesty.

Indiana Insurance provides commercial umbrella insurance coverage in the amount of \$3,000,000 per occurrence and \$3,000,000 annual aggregate.

Settled claims have not exceeded this commercial coverage in any of the past three fiscal years nor has insurance coverage been significantly reduced from prior year.

Medical/Surgical, Dental and Vision Insurance

Medical/surgical, dental and vision insurance is offered to employees through a self-insurance internal service fund. The District has established a Risk Management Fund (an internal service fund) to account for and finance its uninsured risks of loss. Under this program, the Risk Management Fund provides coverage for up to a maximum of \$50,000 per covered person. The plan is offered to school districts state-wide through the Medical Mutual in Steubenville, and administered by Self-Funded Plans, Inc. of Cleveland.

All funds of the District participate in the program and make payments to the Risk Management Fund based on actuarial estimates of the amounts needed to pay claims and actual amounts needed to pay fixed costs (premiums for stop-loss coverage and medical conversion and administrative fees and services). The District's independent third-party administrator has actuarially determined that \$125,000 is a good and sufficient provision for incurred but not reported claims as of June 30, 2014. This amount is non-discounted and is based upon historical claims experience.

The claims liability of \$125,000 reported in the internal service fund at June 30, 2014, is based on an estimate provided by Self Funded Plans, Inc. (the third party administrator) and the requirements of GASB Statement No. 10, "Accounting and Financial Reporting for Risk Financing and Related Insurance Issues", as amended by GASB Statement No. 30, "Risk Financing Omnibus", which requires that a liability for unpaid claims costs, including estimates of costs relating to incurred but not reported claims, be accrued at the estimated ultimate cost of settling claims. Changes in claims activity for the past two

Mount Gilead Exempted Village School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014

fiscal years are as follows:

| <u>Fiscal Year</u> | <u>Beginning Balance</u> | <u>Claims Incurred</u> | <u>Claims Payments</u> | <u>Ending Balance</u> |
|--------------------|--------------------------|------------------------|------------------------|-----------------------|
| 2014 | \$113,746 | \$1,182,080 | (\$1,170,826) | \$125,000 |
| 2013 | 113,746 | 1,368,356 | (1,368,356) | 113,746 |

Workers' Compensation

For fiscal year 2014, the District participated in the CareWorks Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool. The intent of the GRP is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is tiered into groups based upon past workers' compensation experience. Within each tiered group, a common premium rate is applied to all school districts within that group. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of their tiered group. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of CareWorks provides administrative, cost control and actuarial services to the GRP.

Note 11 - Pension Plans

School Employees Retirement System of Ohio

Plan Description

The District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple-employer defined benefit pension plan. 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 state statute per Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report can be obtained by contacting SERS, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling toll free (800) 878-5853. It is also posted on SERS' website at www.ohsers.org under Employers/Audit Resources.

Funding Policy

Plan members are required to contribute 10% of their annual covered salary and District is required to contribute 14% of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board. The Retirement Board acting with the advice of the actuary, allocates the employer contribution rate among four of the funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care fund) of the System. For fiscal year ending June 30, 2014, the allocation to pension and death benefits is 13.10%. The remaining 0.90% of the 14% employer contribution rate is allocated to the Health Care and Medicare B Funds. The District's contributions to SERS for the years ended June 30, 2014, 2013, and 2012 were \$259,392, \$247,824, and \$236,808, respectively; contributions equaled the required contributions for each year.

Mount Gilead Exempted Village School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014

State Teachers Retirement System of Ohio

Plan Description

The School District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple employer public employee retirement system. STRS Ohio is a statewide retirement plan for licensed teachers and other faculty members employed in the public schools of Ohio or any school, community school, college, university, institution, or other agency controlled, managed and supported, in whole or in part, by the state or any political subdivision thereof. Additional information or copies of STRS Ohio's Comprehensive Annual Financial Report can be requested by writing to STRS Ohio, 275 E. Broad Street, Columbus, OH 43215-3771, by calling toll-free 1-888-227-7877, or by visiting the STRS Ohio web site at www.strsoh.org.

Plan Options

New members have a choice of three retirement plan options. In addition to the Defined Benefit (DB) Plan, new members are offered a Defined Contribution (DC) Plan and a Combined Plan. The DC Plan allows members to allocate all their member contributions and employer contributions equal to 10.5% of earned compensation among various investment choices. The Combined Plan offers features of the DC Plan and DB Plan. In the Combined Plan, member contributions are allocated to 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. Contributions into the DC Plan and Combined Plan are credited to member accounts as employers submit their payroll information to STRS Ohio, generally on a biweekly basis. DC and Combined Plan members will transfer to the DB Plan during their fifth year of membership unless they permanently select the DC or Combined Plan.

DB Plan Benefits

Plan benefits are established under Chapter 3307 of the Revised Code. Any member may retire who has (i) five years of service credit and attained age 60; (ii) 25 years of service credit and attained age 55; or (iii) 30 years of service credit regardless of age. The annual retirement allowance, payable for life, is the greater of the "formula benefit" or the "money-purchase benefit" calculation. Under the "formula benefit," the retirement allowance is based on years of credited service and final average salary, which is the average of the member's three highest salary years. The annual allowance is calculated by using a base percentage of 2.2% multiplied by the total number of years of service credit (including Ohio-valued purchased credit) times the final average salary. The 31st year of earned Ohio service credit is calculated at 2.5%. An additional one-tenth of a percent is added to the calculation for every year of earned Ohio service over 31 years (2.6% for 32 years, 2.7% for 33 years and so on) until 100% of final average salary is reached. For members with 35 or more years of Ohio contributing service, the first 30 years will be calculated at 2.5% instead of 2.2%. Under the "money-purchase benefit" calculation, a member's lifetime contributions plus interest at specified rates are matched by an equal amount from other STRS Ohio funds. This total is then divided by an actuarially determined annuity factor to determine the maximum annual retirement allowance.

DC Plan Benefits

Benefits are established under Sections 3307.80 to 3307.89 of the Revised Code. For members who select the DC Plan, all member contributions and employer contributions at a rate of 10.5% are placed in an investment account. The member determines how to allocate the member and employer money among various investment choices. 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. Employer contributions into members' accounts are vested after the first anniversary

Mount Gilead Exempted Village School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014

of the first day of paid service. Members in the DC Plan who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Combined Plan Benefits

Member contributions are allocated by the member, and employer contributions are used to fund a defined benefit payment. A member's defined benefit is determined by multiplying 1% of the member's final average salary by the member's years of service credit. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60. The defined contribution portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50.

Eligible faculty of Ohio's public colleges and universities may choose to enroll in either STRS Ohio or an alternative retirement plan (ARP) offered by their employer. Employees have 120 days from their employment date to select a retirement plan.

A retiree of STRS Ohio or another Ohio public retirement system is eligible for reemployment as a teacher following the elapse of two months from the date of retirement. Contributions are made by the reemployed member and employer during the reemployment. Upon termination of reemployment or age 65, whichever comes later, the retiree is eligible for an annuity benefit or equivalent lump-sum payment in addition to the original retirement allowance. A reemployed retiree may alternatively receive a refund of only member contributions with interest before age 65, once employment is terminated.

Benefits are increased annually by 3% of the original base amount for DB Plan participants.

The DB and Combined Plans offer access to health care coverage to eligible retirees who participated in the plans and their eligible dependents. Coverage under the current program includes hospitalizations, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums. By Ohio law, health care benefits are not guaranteed.

A DB or Combined Plan member with five or more years' credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of members who die before retirement may qualify for survivor benefits. A death benefit of \$1,000 is payable to the beneficiary of each deceased retired member who participated in the DB Plan. Death benefit coverage up to \$2,000 can be purchased by participants in the DB, DC or Combined Plans. Various other benefits are available to members' beneficiaries.

Funding Policy

Chapter 3307 of the Revised Code provides statutory authority for member and employer contributions. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 11% for members and 14% for employers.

Contribution requirements and the contributions actually made for the fiscal year ended June 30, 2014, were 11% of covered payroll for members and 14% for employers. The District's contributions to STRS for the years ended June 30, 2014, 2013, and 2012 were \$690,888, \$753,816, and \$790,440, respectively; 83% has been contributed for fiscal year 2014 and 100% for fiscal years 2013 and 2012.

Mount Gilead Exempted Village School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014

Note 12- Post Employment Benefits

School Employees Retirement System of Ohio

Plan Description

In addition to a cost-sharing multiple-employer defined benefit pension plan, the School Employees Retirement System of Ohio (SERS) administers two postemployment benefit plans.

Medicare Part B Plan

The Medicare B plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Ohio Revised Code (ORC) 3309.69. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B premium for calendar year 2014 was \$104.90 for most participants, but could be as high as \$335.70 depending on their income; SERS' reimbursement to retirees was \$45.50.

The Retirement Board, acting with the advice of the actuary, allocates a portion of the current employer contribution rate to the Medicare B Fund. For fiscal year 2014, the actuarially required allocation was .76%. District contributions for the year ended June 30, 2014, 2013 and 2012 were \$13,711, \$13,099, and \$12,855, respectively, which equaled the required contributions each year.

Health Care Plan

ORC 3309.375 and 3309.69 permit SERS to offer health care benefits to eligible retirees and beneficiaries. SERS' Retirement Board reserves the right to change or discontinue any health plan or program. SERS offers several types of health plans from various vendors, including HMO's, PPO's, Medicare Advantage and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively.

The ORC provides the statutory authority to fund SERS' postemployment benefits through employer contributions. Active members do not make contributions to the postemployment benefit plans.

The Health Care Fund was established under, and is administered in accordance with, Internal Revenue Code 105(e). Each year after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer 14% contribution to the Health Care Fund. At June 30, 2014, the health care allocation was 0.14%. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statutes provide that no employer shall pay a health care surcharge greater than 2% of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5% of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2014, the minimum compensation level was established at \$20,250. The surcharge, added to the unallocated portion of the 14% employer contribution rate is the total amount assigned to the Health Care Fund. The District contributions assigned to health care for the years ended June 30, 2014, 2013, and 2012 were \$2,964, \$2,844, and \$9,775, respectively;

The SERS Retirement Board establishes the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending on the plan selected, qualified years of service, Medicare eligibility, and retirement status.

Mount Gilead Exempted Village School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014

The financial reports of SERS' Health Care and Medicare B plans are included in its Comprehensive Annual Financial Report. The report can be obtained by contacting SERS, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling toll free (800) 878-5853. It is also posted on SERS' website at www.ohsers.org under Employers/Audit Resources.

State Teachers Retirement System of Ohio

Plan Description

STRS Ohio administers a pension plan that is comprised of: a Defined Benefit Plan; a self-directed Defined Contribution Plan and a Combined Plan that is a hybrid of the Defined Benefit and the Defined Contribution Plan.

Ohio law authorized STRS Ohio to offer a cost-sharing, multiple-employer health care plan. STRS Ohio provides access to health care coverage to eligible retirees who participated in the Defined Benefit or Combined Plans. Coverage under the current program includes hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums.

Pursuant to 3307 of the Revised Code, the Retirement Board has discretionary authority over how much, if any, of the associated health care costs will be absorbed by STRS Ohio. All benefit recipients, for the most recent year, pay a portion of the health care costs in the form of a monthly premium.

STRS Ohio issues a stand-alone financial report. Interested parties can view the most recent Comprehensive Annual Financial Report by visiting www.strsoh.org or by requesting a copy by calling toll-free 1-888-227-7877.

Funding Policy

Under Ohio law, funding for post-employment health care may be deducted from employer contributions. Of the 14% employer contributions rate, 1% of covered payroll was allocated to post-employment health care for the year ended June 30, 2014, 2013 and 2012. The 14% employer contribution rate is the maximum rate established under Ohio law. The District contributions for the years ended June 30, 2014, 2013, and 2012 were \$49,349, \$53,844, and \$56,460, respectively; 83% has been contributed for fiscal year 2014 and 100% for fiscal years 2013 and 2012.

Note 13 - Contingencies

Grants

The School 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. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School at June 30, 2014.

Litigation

The District is not currently party to any legal proceedings, which would have a material impact on the financial statements.

Mount Gilead Exempted Village School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014

Note 14 – Compliance and Accountability

Compliance

For the year ended June 30, 2014, the District had expenditures in excess of appropriations in the following funds:

| Fund | Actual Expenditures | Final Appropriations | Excess |
|--|------------------------|-------------------------|-----------|
| General | \$12,087,243 | \$11,455,086 | \$632,157 |
| Permanent Improvement | 58,351 | 0 | 58,351 |
| Food Services | 585,906 | 483,289 | 102,617 |
| Public School Support | 97,722 | 63,197 | 34,525 |
| Employee Benefits Self-Insurance | 1,449,203 | 1,414,198 | 35,005 |
| Classroom Facilities Maintenance | 455,161 | 347,550 | 107,611 |
| Termination Benefits | 26,266 | 4,030 | 22,236 |
| Student Management Student Activities | 59,785 | 23,590 | 36,195 |
| District Management Student Activities | 102,224 | 32,514 | 69,710 |
| Alternative Schools | 26,628 | 22,467 | 4,161 |
| IDEA, Part B Special Education | 292,618 | 271,057 | 21,561 |

Accountability

The following individual funds had a deficit in fund balance at year end:

| Fund | Deficit |
|---------------------------|----------|
| Other Governmental Funds: | |
| Alternative Schools | \$22,496 |
| IDEA, Part B | 75,254 |
| Race to the Top | 7,026 |
| Title II-D | 251 |
| Improving Teacher Quality | 12,574 |
| Title I | 57,700 |
| Food Service | 39,762 |
| Permanent Improvement | 1,647 |

The deficit in fund balance was primarily due to accruals in GAAP. The general fund is liable for any deficit in these funds and will provide operating transfers when cash is required not when accruals occur.

Note 15 - Statutory Reserves

The District is required by State law to set-aside certain general fund revenue amounts, as defined by statute, into various reserves. These reserves are calculated and presented on a cash basis. During the

Mount Gilead Exempted Village School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014

fiscal year ended June 30, 2014, the reserve activity was as follows:

| | <u>Capital Acquisition</u> |
|---|--------------------------------|
| Set Aside Reserve Balance as of June 30, 2013 | \$0 |
| Current Year Set Aside Requirements | 219,526 |
| Qualified Disbursements | (127,810) |
| Prior Year Offset from Bonds | <u>(91,716)</u> |
| Total | <u><u>\$0</u></u> |

Qualifying expenditures for capital acquisition exceeded the required set-aside amount. The amount presented for prior year offset from bond proceeds is limited to an amount needed to reduce the capital acquisition set-aside balance to \$0. The District is responsible for tracking the amount of bond proceeds that may be used as an offset in future periods.

Note 16 - Interfund Transactions

Interfund transactions at June 30, 2014, consisted of the following interfund receivables and interfund payables:

| | Interfund | |
|--------------------------|-------------------------|-------------------------|
| | <u>Receivable</u> | <u>Payable</u> |
| General Fund | \$146,292 | \$0 |
| Other Governmental Funds | <u>0</u> | <u>146,292</u> |
| Total All Funds | <u><u>\$146,292</u></u> | <u><u>\$146,292</u></u> |

Interfund balance/transfers are used to move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them and unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budget authorizations; to segregate and to return money to the fund from which it was originally provided once a project is completed.

Note 17 – Fund Balances

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

Mount Gilead Exempted Village School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014

| Fund Balances | General | Debt Service | Other Governmental Funds | Total |
|----------------------------------|--------------------|--------------------|--------------------------------|--------------------|
| Restricted for: | | | | |
| Classroom Facilities Maintenance | \$0 | \$0 | \$212,970 | \$212,970 |
| Extracurricular | 0 | 0 | 19,869 | 19,869 |
| Auxiliary Services | 0 | 0 | 48,874 | 48,874 |
| Special Trust | 0 | 0 | 12,697 | 12,697 |
| Debt Service | 0 | 1,732,753 | 0 | 1,732,753 |
| Building | 0 | 0 | 1,445 | 1,445 |
| Classroom Facilities | 0 | 0 | 634,604 | 634,604 |
| Total Restricted | 0 | 1,732,753 | 930,459 | 2,663,212 |
| Assigned to: | | | | |
| Public School Support | 93,350 | 0 | 0 | 93,350 |
| Budgetary variance | 846,589 | 0 | 0 | 846,589 |
| Encumbrances | 77,054 | 0 | 0 | 77,054 |
| Total Assigned | 1,016,993 | 0 | 0 | 1,016,993 |
| Unassigned (Deficit) | 2,182,196 | 0 | (216,710) | 1,965,486 |
| Total Fund Balance | <u>\$3,199,189</u> | <u>\$1,732,753</u> | <u>\$713,749</u> | <u>\$5,645,691</u> |

Note 18 – Change in Accounting Principles

The District adopted the provisions of GASB Statement Number 65, *Items Previously Reported as Assets and Liabilities*. GASB Statement Number 65 establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012 and have been implemented by the District.

Note 19 – Prior Period Adjustment

In prior periods, the District had reported assets related to bond issuance costs in the Governmental Activities entity-wide financial statements. GASB Statement Number 65, *Items Previously Reported as Assets and Liabilities*, has reclassified debt issuance costs as an expense in the period incurred rather than amortizing the costs over the life of the debt. The implementation of GASB Statement Number 65 requires a restatement of prior period's net position as follows:

Mount Gilead Exempted Village School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014

| | <u>Governmental Activities</u> |
|--------------------------------------|------------------------------------|
| Net Position - June 30, 2013 | \$29,558,762 |
| Prior Period Adjustment: | |
| Bond Issuance Costs | (119,298) |
| Restated Net Position - July 1, 2013 | <u><u>\$29,439,464</u></u> |

Note 20 – Other Commitments

The 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 District’s commitments for encumbrances in the governmental funds were as follows:

| <u>Fund</u> | <u>Amount</u> |
|-----------------------|-------------------------|
| General | \$77,054 |
| Nonmajor Governmental | <u>337,690</u> |
| Total | <u><u>\$414,744</u></u> |

Note 21 - The Tomorrow Center Community School

The Tomorrow Center Community School (the “Center”) is a discretely presented component unit of the Mount Gilead Exempted Village School District (the “District”). The District is the Sponsor of the Center. The Center issues a publicly available, stand-alone financial report that includes financial statements and supplementary information. That may be obtained by writing to Treasurer of the Mount Gilead Exempted Village School District, 145 North Cherry Street, Mount Gilead, Ohio 43338.

Significant Accounting Policies

Basis of Presentation - Enterprise accounting is used to account for operations that are financed and operated in a manner similar to private business enterprises and focuses on the determination of operating income, changes in net position, financial position, and cash flows. Enterprise accounting may be used to account for any activity for which a fee is charged to external users for goods or services.

Measurement Focus and Basis of Accounting - Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets, deferred outflows of resources, all liabilities and deferred inflows of resources are included on the statement of net position. Operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made. The accrual basis of accounting is utilized for reporting purposes. Revenues are recognized when they are earned,

Mount Gilead Exempted Village School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014

and expenses are recognized when they are incurred.

Budgetary Process - Unlike other public schools located in the State of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Revised Code Chapter 5705, unless specifically provided in the Center's contract with its Sponsor. The contract between the Center and its Sponsor requires a detailed school budget for each year of the contract; however, the budget does not have to follow the provisions of Ohio Revised Code Chapter 5705.

Cash - All monies received by the Center are deposited in a demand deposit account.

Capital Assets and Depreciation - All capital assets are capitalized at cost and updated for additions and reductions during the year. Donated capital assets are recorded at their fair market value on the date donated. The Center maintains a capitalization threshold of \$500 for nontechnical and audio/visual equipment and \$200 for technical and audiovisual equipment. The Center does not have any infrastructure. Improvements are capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

All capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method. Furniture and equipment is depreciated over five to fifteen years.

Operating Revenues and Expenses - Operating revenues are those revenues that are generated directly from the primary activity of the Center. Operating expenses are necessary costs incurred to provide the service that is the primary activity of the Center. All revenues and expenses not meeting this definition are reported as non-operating.

Prepayments - Certain payments to vendors reflect the costs applicable to future accounting periods and are recorded as prepaid items in the financial statements. These items are reported as assets on the statement of net position using the consumption method. A current asset for the prepaid amounts is recorded at the time of the purchase and the expense is reported in the year in which services are consumed.

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. Net position is reported as restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

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

Intergovernmental Revenue - The Center currently participates in the State Foundation Program. Revenues received from this program are recognized as operating revenues in the accounting period in which all eligibility requirements are met.

Federal and State grants are recognized as non-operating revenues in the accounting period in which all eligibility requirements have been met. 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

Mount Gilead Exempted Village School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014

permitted, matching requirements, in which the Center must provide local resources to be used for a specified purpose, and expense requirements, in which the resources are provided to the Center on a reimbursement basis.

Estimates - The preparation of financial statements in conformity with GAAP 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.

Income Taxes - The Center is a component unit of Mount Gilead Exempted Village School District and is exempt from Federal income tax as an exempted affiliate of a governmental unit. Accordingly, no income tax expense is recorded in the accompanying financial statements.

Generally accepted accounting principles require the Center to evaluate the level of uncertainty related to whether tax positions taken will be sustained upon examination. Any positions taken that do not meet the more-likely-than-not threshold must be quantified and recorded as a liability for unrecognized tax benefits in the accompanying financial statement of net position along with any associated interest and penalties that would be payable to the taxing authorities upon examination. Interest and penalties associated with unrecognized tax benefits are classified as additional income taxes in the statement of revenues, expenses and changes in net position. The Center believes that none of the tax positions taken would materially impact the financial statements and no such liabilities have been recorded. With few exceptions, the Center is no longer subject to income tax examinations by the U.S. Federal, state or local tax authorities for the years ended June 30, 2009 and prior.

Deposits

At June 30, 2014, the carrying amount of all Center deposits was \$611,973. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2014, \$447,437 of the Center's bank balance of \$697,437 was exposed to custodial risk, while \$250,000 was covered by the FDIC.

Custodial credit risk is the risk that, in the event of bank failure, the Center's deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the Center. The Center has no deposit policy for custodial credit risk beyond the requirements of State statute. Although the securities were held by the pledging institutions' trust department and all statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the Center to a successful claim by the FDIC.

Receivables

Receivables at June 30, 2014, consisted of accounts receivable and intergovernmental receivables arising from grants and entitlements. All receivables are considered collectable in full.

Mount Gilead Exempted Village School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014

Capital Assets

A summary of capital assets at June 30, 2014 follows:

| | <u>Beginning Balance</u> | <u>Additions</u> | <u>Deletions</u> | <u>Ending Balance</u> |
|--|------------------------------|------------------|------------------|---------------------------|
| Component Unit | | | | |
| <i>Capital Assets, being depreciated:</i> | | | | |
| Furniture and Equipment | \$361,949 | \$90,538 | \$0 | \$452,487 |
| Less Accumulated Depreciation | (256,762) | (38,506) | 0 | (295,268) |
| Component Unit Capital Assets, Net | <u>\$105,187</u> | <u>\$52,032</u> | <u>\$0</u> | <u>\$157,219</u> |

Contract Services

For fiscal year ended June 30, 2014, contract services expenses through Mt. Gilead Exempted Village School District were as follows:

| | |
|-----------------------------------|------------------|
| Purchased Instructional Services | \$294,738 |
| Purchased Administrative Services | 241,018 |
| Utility Expenses | 75,011 |
| | <u>\$610,767</u> |

The above transactions are related party transactions since these services are purchased through the Sponsor, Mount Gilead Exempted Village School District.

Risk Management

The Center is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Center is covered under the liability and property polices of the Mount Gilead Exempted Village School District.

This Space Intentionally Left Blank

Mount Gilead Exempted Village School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014

| <u>Coverage</u> | <u>Limits of Coverage</u> | <u>Deductible</u> |
|---------------------------------------|---------------------------|-------------------|
| General Liability: | | |
| Each Occurrence | \$1,000,000 | \$0 |
| Annual Aggregate | 2,000,000 | 0 |
| Commercial Umbrella: | | |
| Each Occurrence | 1,000,000 | 0 |
| Annual Aggregate | 1,000,000 | 0 |
| Employee Benefits Liability: | | |
| Each Occurrence | 1,000,000 | 3,000 |
| Annual Aggregate | 3,000,000 | 3,000 |
| Ohio Employer's Liability: | | |
| Each Occurrence | 1,000,000 | 0 |
| Annual Aggregate | 2,000,000 | 0 |
| School Leader's Errors and Omissions: | | |
| Each Occurrence | 1,000,000 | 1,000 |
| Annual Aggregate | 1,000,000 | 1,000 |
| School Law Enforcement Liability: | | |
| Each Occurrence | 500,000 | 2,500 |
| Annual Aggregate | 500,000 | 2,500 |
| Property | 28,647,325 | 2,500 |

Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years. There has been no significant reduction in amounts of insurance coverage from prior year.

Contingencies

Litigation

The Center is not involved in any other litigation that, in the opinion of management, would have a material effect on the financial statements.

State Foundation Funding

The Ohio Department of Education conducts reviews of enrollment data and full-time equivalency (FTE) calculations made by the schools. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. Adjustments to the state funding received during fiscal year 2014 are immaterial and are not reflected in the fiscal year 2014 financial statements but will be included in the financial activity for fiscal year 2015.

Grants

The Center 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

Mount Gilead Exempted Village School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014

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. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Center at June 30, 2014.

Service Contract

The Mount Gilead Exempted Village School District and the Center have entered into a service contract agreement. This agreement states that the Center will contract for educational services from the Mount Gilead Exempted Village School District Board of Education and reimburse the Board of Education for these services. The Mount Gilead Exempted Village School District agreed to provide the requested services and receive reimbursement for the Center pursuant to Ohio Revised Code Section 3317.11 as follows:

1. Instructional services for the intensive day treatment program
2. Instructional services for the High School S.E.D. program
3. Instructional services for the Recovery/Alcohol program
4. Instructional services for the Suspension Alternative program
5. Collaboration for staff development programs for certified and non-certified staff
6. Planning and consultative services for curriculum development
7. Psychological services as needed for re-evaluations and initial multi-factored evaluations
8. Fiscal services including payroll, retirement, and insurance
9. Student services including E.M.I.S., Nursing, Speech, Guidance and Therapy
10. Classroom space and administrative services
11. Custodial services
12. Food services
13. Transportation services
14. Supervision/Director services
15. Office Management services
16. Classroom aides for instructional areas
17. Technology support

The Mount Gilead Board of Education acts as the fiscal agent for the service agreement described above. As fiscal agent, the Board of Education shall enter into employment contracts with each certified teacher/administrator/aide whose services are to be shared with Mount Gilead Exempted Village School District. Other services may be provided based on mutual consent of both the Center and the Mount Gilead Exempted Village School District.

Related Party Transactions

The Center is a component unit of the Sponsor (Mt. Gilead Exempted Village School District). The Center and the Sponsor entered into an agreement beginning July 1, 2011 through June 30, 2016, whereby terms of the sponsorship were established. Pursuant to this agreement, the Sponsor's Treasurer serves as the Center's fiscal officer.

In fiscal year 2014, payments were made by the Center to the Sponsor totaling \$610,767. These represent payments for reimbursements for services provided by the Sponsor to the Center.

REQUIRED SUPPLEMENTARY INFORMATION

Mount Gilead Exempted Village School District, Ohio
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual (Non-GAAP Budgetary Basis)
For the Fiscal Year Ended June 30, 2014

| | General Fund | | | |
|--|--------------------|--------------------|--------------------|----------------------------|
| | Original Budget | Final Budget | Actual | Variance from Final Budget |
| Revenues: | | | | |
| Property and Other Taxes | \$2,814,889 | \$2,814,889 | \$2,857,096 | \$42,207 |
| Income Taxes | 1,068,766 | 1,068,766 | 1,084,791 | 16,025 |
| Tuition and Fees | 592,480 | 592,480 | 601,364 | 8,884 |
| Investment Earnings | 8,855 | 8,855 | 8,988 | 133 |
| Intergovernmental | 6,937,646 | 6,937,646 | 7,041,669 | 104,023 |
| Other Revenues | 264,608 | 264,608 | 268,576 | 3,968 |
| Total Revenues | 11,687,244 | 11,687,244 | 11,862,484 | 175,240 |
| Expenditures: | | | | |
| Current: | | | | |
| Instruction: | | | | |
| Regular | 4,267,635 | 4,305,219 | 4,542,806 | (237,587) |
| Special | 1,004,027 | 1,012,869 | 1,068,765 | (55,896) |
| Vocational | 243,477 | 245,621 | 259,176 | (13,555) |
| Other | 1,136,758 | 1,146,770 | 1,210,055 | (63,285) |
| Support Services: | | | | |
| Pupil | 1,058,611 | 1,067,934 | 1,126,869 | (58,935) |
| Instructional Staff | 175,545 | 177,091 | 186,864 | (9,773) |
| General Administration | 30,252 | 30,519 | 32,203 | (1,684) |
| School Administration | 876,386 | 884,104 | 932,894 | (48,790) |
| Fiscal | 460,318 | 464,372 | 489,999 | (25,627) |
| Operations and Maintenance | 1,099,557 | 1,109,241 | 1,170,455 | (61,214) |
| Pupil Transportation | 495,338 | 499,701 | 527,277 | (27,576) |
| Central | 5,571 | 5,620 | 5,930 | (310) |
| Operation of Non-Instructional Services | 7,290 | 7,354 | 7,760 | (406) |
| Extracurricular Activities | 172,679 | 174,200 | 183,813 | (9,613) |
| Capital Outlay | 109,207 | 110,169 | 116,249 | (6,080) |
| Debt Service: | | | | |
| Interest and Fiscal Charges | 24,545 | 24,762 | 26,128 | (1,366) |
| Total Expenditures | 11,167,196 | 11,265,546 | 11,887,243 | (621,697) |
| Excess of Revenues Over (Under) Expenditures | 520,048 | 421,698 | (24,759) | (446,457) |
| Other Financing Sources (Uses): | | | | |
| Transfers (Out) | (187,885) | (189,540) | (200,000) | (10,460) |
| Total Other Financing Sources (Uses) | (187,885) | (189,540) | (200,000) | (10,460) |
| Net Change in Fund Balance | 332,163 | 232,158 | (224,759) | (456,917) |
| Fund Balance - Beginning of Year (includes prior year encumbrances appropriated) | 2,947,705 | 2,947,705 | 2,947,705 | 0 |
| Fund Balance - End of Year | \$3,279,868 | \$3,179,863 | \$2,722,946 | (\$456,917) |

See accompanying notes to the required supplementary information.

Mount Gilead Exempted Village School District, Ohio
Notes to the Required Supplementary Information
For The Fiscal Year Ended June 30, 2014

Note 1 – Budgetary Process

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

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

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

While the District is reporting financial position, results of operations and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual (Non-GAAP Basis) 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 as follows:

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

Mount Gilead Exempted Village School District, Ohio
Notes to the Required Supplementary Information
For The Fiscal Year Ended June 30, 2014

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements for the General Fund.

| | <u>General</u> |
|----------------------|---------------------------|
| GAAP Basis | \$177,066 |
| Revenue Accruals | (850,875) |
| Expenditure Accruals | 725,215 |
| Transfers (Out) | (200,000) |
| Encumbrances | <u>(76,165)</u> |
| Budget Basis | <u><u>(\$224,759)</u></u> |

This Space Intentionally Left Blank

January 29, 2015

To the Board of Education
Mount Gilead Exempted Village School District
Morrow County, Ohio
145 North Cherry Street
Mount Gilead, OH 43338

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 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, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Mount Gilead Exempted Village School District, Morrow County, Ohio (the District) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated January 29, 2015, wherein we noted the District implemented GASB Statement No. 65 "*Items Previously Reported as Assets and Liabilities*" and restated their June 30, 2013 net position of governmental activities.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the 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 District's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 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 an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying *schedule of findings and questioned costs* as item 2014-001.

The District's Response to Findings

The District's response to the finding identified in our audit is described in the accompanying *schedule of findings and questioned costs*. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 result 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.

Hea & Associates, Inc.

Millersburg, Ohio

January 29, 2015

To the Board of Education
Mount Gilead Exempted Village School District
Morrow County, Ohio
145 North Cherry Street
Mount Gilead, OH 43338

**Independent Auditor's Report on Compliance for Each Major Federal Program and
Report on Internal Control over Compliance Required by OMB Circular A-133**

Report on Compliance for Each Major Federal Program

We have audited Mount Gilead Exempted Village School District's, Morrow County, Ohio (the District) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2014. The 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 requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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 the 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 the District's compliance.

Opinion on Each Major Federal Program

In our opinion, the District 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, 2014.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as items 2014-002. Our opinion on each major federal program is not modified with respect to these matters.

The District's response to the noncompliance finding identified in our audit is described in the accompanying *schedule of findings and questioned costs*. The District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control over Compliance

Management of the 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 the 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 OMB Circular A-133, 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 the District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, 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.

Mount Gilead Exempted Village School District
Independent Auditor's Report on Compliance for Each Major Federal Program and
Report on Internal Control over Compliance Required by OMB Circular A-133
Page 3 of 3

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, we identified a certain deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2014-002 that we consider to be a significant deficiency.

The District's response to the internal control over compliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Rea & Associates, Inc.

Millersburg, Ohio

**MOUNT GILEAD EXEMPTED VILLAGE SCHOOL DISTRICT
MORROW COUNTY, OHIO**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FISCAL YEAR ENDED JUNE 30, 2014**

| Federal Grantor/ Pass Through Grantor Program Title | Program Year | Federal CFDA Number | Receipts | Expenditures |
|---|-----------------|---------------------------|--------------------------|--------------------------|
| <u>U.S. DEPARTMENT OF AGRICULTURE</u> | | | | |
| <i>Passed Through the Ohio Department of Education:</i> | | | | |
| Child Nutrition Cluster: | | | | |
| School Breakfast Program (B) | 2014 | 10.553 | \$ 78,313 | \$ 78,313 |
| National School Lunch Program (B) | 2014 | 10.555 | 270,023 | 270,023 |
| Food Commodity Distribution (C) | 2014 | 10.555 | <u>41,173</u> | <u>41,173</u> |
| Total Child Nutrition Cluster | | | <u>389,509</u> | <u>389,509</u> |
| Total U.S. Department of Agriculture | | | <u>389,509</u> | <u>389,509</u> |
| <u>U.S. DEPARTMENT OF EDUCATION</u> | | | | |
| <i>Passed Through the Ohio Department of Education:</i> | | | | |
| Special Education - Grants to States (IDEA Part B) | 2013 | 84.027 | 7,322 | 5,376 |
| | 2014 | 84.027 | <u>226,741</u> | <u>284,786</u> |
| Total Special Education - Grants to States (IDEA Part B) | | | 234,063 | 290,162 |
| Grants to Local Educational Agencies (Title I) | 2013 | 84.010 | 68,464 | 20,483 |
| | 2014 | 84.010 | <u>204,661</u> | <u>241,504</u> |
| Total Grants to Local Educational Agencies (Title I) | | | 273,125 | 261,987 |
| Improving Teacher Quality State Grants (Title II-A) | 2013 | 84.367 | 60 | 0 |
| | 2014 | 84.367 | <u>6,116</u> | <u>18,690</u> |
| Total Improving Teacher Quality State Grants (Title II-A) | | | 6,176 | 18,690 |
| ARRA - Race to the Top | 2013 | 84.395 | 43,836 | 26,974 |
| | 2014 | 84.395 | <u>0</u> | <u>1,427</u> |
| Total ARRA - Race to the Top | | | 43,836 | 28,401 |
| Total U.S. Department of Education | | | <u>557,200</u> | <u>599,240</u> |
| Totals | | | <u>\$ 946,709</u> | <u>\$ 988,749</u> |

The accompanying notes to this schedule are an integral part of this schedule.

Mount Gilead Exempted Village School District
Morrow County, Ohio
Notes to the Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2014

Note A – Significant Accounting Policies

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) reports the federal award programs' receipts and disbursements. The schedule has been prepared on the cash basis of accounting. Consequently, certain revenues are recognized when received rather than when earned and certain expenditures are recognized when paid rather than when the obligation is incurred.

Note B – Commingled Funds

Federal money is commingled with state subsidy reimbursements for Child Nutrition Cluster. It is assumed federal moneys are expended first.

Note C – Food Donation Program

Program regulations do not require the District to maintain separate inventory records for purchased food and food received from the U.S. Department of Agriculture. This non-monetary assistance and related expenditures are reported in this schedule at the value of the commodities received as assessed by the U.S. Department of Agriculture (entitlement value).

Mount Gilead Exempted Village School District
Morrow County, Ohio
Schedule of Findings and Questioned Costs
OMB Circular A-133, Section .505
June 30, 2014

| |
|--|
| 1. SUMMARY OF AUDITOR'S RESULTS |
|--|

| | | |
|----------------|--|---|
| (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)? | Yes |
| (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? | Yes |
| (d) (1) (v) | Type of Major Programs' Compliance Opinion | Unmodified |
| (d) (1) (vi) | Are there any reportable findings under Section .510? | Yes |
| (d) (1) (vii) | Major Programs (list): Child Nutrition Cluster School Breakfast Program National School Lunch Program | CFDA # 10.553 10.555 |
| (d) (1) (viii) | Dollar Threshold: Type A/B Programs | Type A: > \$300,000 Type B: All others |
| (d) (1) (ix) | Low Risk Auditee? | Yes |

Mount Gilead Exempted Village School District
Morrow County, Ohio
Schedule of Findings and Questioned Costs (Continued)
OMB Circular A-133, Section .505
June 30, 2014

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

Finding Number: 2014-001 – Material Noncompliance – Budgeting Procedures

Criteria: Ohio Rev. Code sections 5705.41(B) and 5705.41(D) prohibit a subdivision or taxing unit from expending money unless it has been appropriated.

Condition: During the performance of audit procedures, we noted the following funds had expenditures plus encumbrances exceeding appropriations:

| Fund | Actual Expenditures | Final Appropriations | Excess |
|--------------------------------------|--------------------------------|---------------------------------|---------------|
| General | \$ 12,087,243 | \$ 11,455,086 | \$ 632,157 |
| Permanent Improvement | 58,351 | - | 58,351 |
| Food Services | 585,906 | 483,289 | 102,617 |
| Public School Support | 97,722 | 63,197 | 34,525 |
| Employee Benefits Self-insurance | 1,449,203 | 1,414,198 | 35,005 |
| Classroom Facilities Maintenance | 455,161 | 347,550 | 107,611 |
| Termination Benefits | 26,266 | 4,030 | 22,236 |
| Student Management Student Activity | 59,785 | 23,590 | 36,195 |
| District Management Student Activity | 102,224 | 32,514 | 69,710 |
| Alternative Schools | 26,628 | 22,467 | 4,161 |
| IDEA, Part B Special Education | 292,618 | 271,057 | 21,561 |

Cause: The District excluded current year encumbrances when determining appropriations during the budgeting process.

Effect: Failure to monitor budgetary expenditures and appropriations could result in unauthorized expenditures.

Recommendation: We recommend the District compare expenditures and encumbrances to appropriations in all funds which are legally required to be budgeted, at the legal level of control, prior to making expenditure commitments, and make all necessary adjustments to the amounts appropriated to ensure compliance with the above requirements. This comparison, and amendment if necessary, should be completed on a monthly basis at a minimum.

Management's Response: The Treasurer's Office will monitor budgets monthly and make necessary amendments.

Mount Gilead Exempted Village School District
Morrow County, Ohio
Schedule of Findings and Questioned Costs (Continued)
OMB Circular A-133, Section .505
June 30, 2014

| |
|--|
| 3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS |
|--|

Significant Deficiency – Noncompliance – Eligibility

Finding Number: 2014-002

Federal Programs: Nutrition Cluster

CFDA Numbers: 10.553, 10.555

Federal Award Number/Year: 2014

Federal Agency: U.S. Department of Agriculture (USDA)

Criteria: 7 CFR part 245.3(a) states that each State agency, shall by July 1 of each year announce family-size income standards to be used by local educational agencies, as defined in §245.2, under the jurisdiction of such State agency, in making eligibility determinations for free or reduced price meals and for free milk. Such family size income standards for free and reduced price meals and for free milk shall be in accordance with Income Eligibility Guidelines published by the Department by notice in the Federal Register.

Condition: While performing federal testing over the nutrition cluster for eligibility, we noted the eligibility determination for two of the twenty-five tested students was entered into the meals status software incorrectly. The students were properly calculated and authorized to receive a reduced-priced lunch based on the USDA income eligibility guidelines in effect for fiscal year 2014 on the application. The District incorrectly input the status in the meals status software resulting in the student's receiving free lunch status.

Cause: The District did not have sufficient controls in place to ensure all eligibility determinations were input into the system as authorized.

Effect: This caused noncompliance with the regulations of 7 CFR Section 245 and an overstatement of the District's federal Nutrition Cluster reimbursement.

Recommendation: We recommend the District develop procedures to ensure the status as calculated and authorized on the application is entered into the system accurately. We also recommend the District implement procedures over its meal status software to provide a notification email to the appropriate food service employee when the status of a student is changed in the system. The propriety of the status change should be reviewed by the appropriate food service employee and supporting documentation should be retained to support changes.

Management's Response: The application process will be performed by an experienced employee designated by the Food Service Coordinator and Treasurer and input into the meals status software will be monitored with the expectations that this will eliminate any ongoing issues.



Dave Yost • Auditor of State

MT. GILEAD EXEMPTED VILLAGE SCHOOL DISTRICT

MORROW 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 19, 2015**