



# Balestra, Harr & Scherer, CPAs, Inc.

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Accounting, Auditing and Consulting Services for Federal, State and Local Governments

[www.bhscpas.com](http://www.bhscpas.com)

EASTERN LOCAL SCHOOL DISTRICT  
BROWN COUNTY

SINGLE AUDIT

For the Year Ended June 30, 2015  
Fiscal Year Audited Under GAGAS: 2015





# Dave Yost • Auditor of State

Board of Education  
Eastern Local School District  
11479 US Highway 62  
Winchester, Ohio 45697

We have reviewed the *Independent Auditor's Report* of the Eastern Local School District, Brown County, prepared by Balestra, Harr & Scherer, CPAs, Inc., for the audit period July 1, 2014 through June 30, 2015. 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 Eastern Local School District is responsible for compliance with these laws and regulations.

A handwritten signature in cursive script that reads "Dave Yost".

Dave Yost  
Auditor of State

March 1, 2016

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# Eastern Local School District, Brown County

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# Balestra, Harr & Scherer, CPAs, Inc.

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## Independent Auditor's Report

Eastern Local School District  
11479 US Highway 62  
Winchester, Ohio 45697

To the Board of Education:

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Eastern Local School District, Brown County, Ohio (the School District), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

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

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

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

### **Opinion**

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

### **Emphasis of Matter**

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

### **Other Matters**

#### *Required Supplementary Information*

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

#### *Supplementary and Other Information*

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

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

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



**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated December 3, 2015, on our consideration of the School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School District's internal control over financial reporting and compliance.

*Balestra, Harr & Scherer, CPAs*

Balestra, Harr & Scherer, CPAs, Inc.  
Piketon, Ohio  
December 3, 2015

**Eastern Local School District, Brown County**  
*Management's Discussion and Analysis*  
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The discussion and analysis of Eastern Local School District's (School District) financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2015. The intent of this discussion and analysis is to look at the School District's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the School District's financial performance.

**FINANCIAL HIGHLIGHTS**

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

- Net position of governmental activities increased \$78,620.
- General revenues accounted for \$12,334,729 in revenue or 80% of all revenues. Program specific revenues in the form of charges for services and sales, grants, and contributions, accounted for \$2,997,119 or 20% of total revenues of \$15,331,848.
- The School District had \$15,211,538 in expenses related to governmental activities; only \$2,997,119 of these expenses were offset by program specific charges for services and sales, grants, and contributions.
- The School District has two major funds: the General Fund and the Bond Retirement Fund. All governmental funds had total revenues of \$15,367,289 and expenditures of \$15,223,335. The most significant change in fund balance was in the Bond Retirement fund.

**USING THIS ANNUAL FINANCIAL REPORT**

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

The statement of net position and statement of activities provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the School District's most significant funds with all other non-major funds presented in total in one column.

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

*Statement of Net Position and Statement of Activities*

While this document contains information about the large number of funds used by the School District to provide programs and activities for students, the view of the School District as a whole looks at all financial transactions and asks the question, "How did we do financially during fiscal year 2015?" The statement of net position and the statement of activities answer this question. These statements include all assets, liabilities and deferred inflows/outflows of resources using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

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In the statement of net position and the statement of activities, the School District's programs and services are reported as governmental activities including instruction, support services, operation of non-instructional services, and extracurricular activities.

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

*Fund Financial Statements*

The analysis of the School District's major funds begins on page 10. Fund financial statements provide detailed information about the School District's major funds. The School District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the School District's most significant funds. The School District's major governmental funds are the General Fund and the Bond Retirement Fund.

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

***Fiduciary Funds*** The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds and agency funds. Trust funds are used to account for assets held by the School District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the School District's own programs. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. In accordance with GASB 34, fiduciary funds are not included in the government-wide statements. The School District's only fiduciary fund is an agency fund, which is used to account for student-managed activities. Fiduciary funds use the accrual basis of accounting.

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**THE SCHOOL DISTRICT AS A WHOLE**

Recall that the statement of net position provides the perspective of the School District as a whole. Table 1 provides a summary of the School District's net position for 2015 compared to 2014.

Table 1  
Net Position

	Governmental Activities	
	2015	2014*
<b>Assets</b>		
Current and Other Assets	\$ 9,388,617	\$ 9,334,402
Capital Assets, Net	41,758,076	42,669,118
Total Assets	<u>51,146,693</u>	<u>52,003,520</u>
<b>Deferred Outflows of Resources</b>		
Pensions	1,145,996	908,929
Unamortized Deferred Amount on Refunding	415,503	-
Total Deferred Outflows of Resources	<u>1,561,499</u>	<u>908,929</u>
<b>Liabilities</b>		
Current and Other Liabilities	1,366,385	1,369,509
Long-Term Liabilities:		
Due Within One Year	649,528	628,841
Due in More than One Year:		
Net Pension Liabilities	13,970,551	16,593,342
Other Amounts	7,054,518	7,213,243
Total Liabilities	<u>23,040,982</u>	<u>25,804,935</u>
<b>Deferred Inflows of Resources</b>		
Pensions	2,592,684	-
Property Taxes not Levied to Finance Current Year Operations	3,087,487	3,199,095
Total Deferred Inflows of Resources	<u>5,680,171</u>	<u>3,199,095</u>
<b>Net Position</b>		
Net Investment in Capital Assets	35,105,671	35,679,118
Restricted	2,145,597	1,970,550
Unrestricted	(13,264,229)	(13,741,249)
Total Net Position	<u>\$ 23,987,039</u>	<u>\$ 23,908,419</u>

\*As restated – see Note 21

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

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

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those systems requires additional explanation in order to properly understand the information presented in these statements.

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

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

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

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

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

As a result of implementing GASB 68 and GASB 71, the School District is reporting a net pension liability and deferred inflows/outflows of resources related to pension on the accrual basis of accounting. This implementation also had the effect of restating net position at June 30, 2014, from \$39,592,832 to \$23,908,419.

Total net position of the School District as a whole increased \$78,620. Intergovernmental receivable increased while cash had a corresponding decrease due to overpayment of SERS contributions in 2015. Capital assets, net decreased due to current year depreciation expense, which was partially offset by current year additions. Deferred outflows of resources increased due the issuance of the 2014 refunding bonds which had an unamortized deferred amount of \$415,503 at June 30, 2015.

Long-term liabilities decreased primarily due to the decrease in net pension liabilities and principal payments to bonds, which was partially offset from the issuance of the 2014 refunding bonds and an increase in compensated absences. Deferred inflows of resources increased due to the implementation of GASB 68 which increased deferred inflows of resources related to pensions.

Total assets decreased \$856,827. This decrease was mainly due to a decrease in capital assets which was due to current year depreciation exceeding additions and deletions.

**Eastern Local School District, Brown County**  
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Table 2 shows the changes in net position for the fiscal years ended June 30, 2015 and 2014.

Table 2  
Changes in Net Position

	Governmental Activities	Governmental Activities
	2015	2014
<b>Revenues</b>		
Program Revenues		
Charges for Services and Sales	1,247,656	1,158,214
Operating Grants and Contributions	1,749,463	1,768,668
Total Program Revenues	<u>2,997,119</u>	<u>2,926,882</u>
General Revenues		
Property Taxes	4,479,903	4,341,315
Payments in Lieu of Taxes	54,032	49,894
Grants and Entitlements, Not Restricted to Specific Programs	7,713,935	7,581,768
Investment Earnings	19,901	23,877
Gifts and Donations, Not Restricted to Specific Programs	30,731	8,161
Miscellaneous	36,227	76,369
Total General Revenues	<u>12,334,729</u>	<u>12,081,384</u>
Total Revenues	<u>15,331,848</u>	<u>15,008,266</u>
<b>Program Expenses</b>		
Instruction:		
Regular	6,411,566	6,041,017
Special	2,028,344	2,177,094
Vocational	106,863	118,651
Other	1,268,022	1,313,159
Support Services:		
Pupils	393,073	381,749
Instructional Staff	24,847	42,838
Board of Education	23,859	31,820
Administration	1,021,927	1,027,705
Fiscal	459,309	506,067
Business	1,102	4,157
Operation and Maintenance of Plant	1,273,545	1,148,013
Pupil Transportation	975,159	1,031,309
Central	157,001	153,463
Operation of Non-Instructional Services	586,653	604,263
Extracurricular Activities	196,312	186,962
Interest and Fiscal Charges	177,590	332,391
Issuance Costs	106,366	-
Total Expenses	<u>15,211,538</u>	<u>15,100,658</u>
Special Item - Return of Classroom Facilities Grant	(41,690)	-
Increase (Decrease) in Net Position	78,620	(92,392)
Net Position, Beginning of Year	23,908,419	N/A
Net Position, End of Year	<u>\$ 23,987,039</u>	<u>\$ 23,908,419</u>

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The information necessary to restate the 2014 beginning balances and the 2014 pension expense amounts for the effects of the initial implementation of GASB 68 is not available. Therefore, 2014 functional expenses still include pension expense of \$908,929 computed under GASB 27. GASB 27 required recognizing pension expense equal to the contractually required contributions to the plan. Under GASB 68, pension expense represents additional amounts earned, adjusted by deferred inflows/outflows. The contractually required contribution is no longer a component of pension expense. Under GASB 68, the 2015 statements report pension expense of \$683,029. Consequently, in order to compare 2015 total program expenses to 2014, the following adjustments are needed:

Total 2015 program expenses under GASB 68	\$15,211,538
Pension expense under GASB 68	(683,059)
2015 contractually required contribution	<u>875,044</u>
Adjusted 2015 program expenses	15,403,523
Total 2014 program expenses under GASB 27	<u>15,100,658</u>
Increase in program expenses not related to pension	<u><u>\$302,865</u></u>

Grants and entitlements not restricted to specific programs increased primarily due to increased foundation revenues. Regular instruction increased due to an increase in salaries and benefits for the teachers of the District. Operation and maintenance of plant increased primarily due to increased classroom facility maintenance expenditures.

**Governmental Activities**

General revenues of \$12,334,729 provide 80% of total revenues. Of this total, property taxes make up 36% and unrestricted grants and entitlements make up 63% of total general revenues.

As indicated by governmental program expenses, instruction is emphasized. Regular instruction comprised 42% of governmental program expenses with special instruction comprising 13% of governmental expenses.

The statement of activities shows the cost of program services and the charges for services and sales, grants, and contributions offsetting those services. Table 3 shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by unrestricted State entitlements, property taxes, and other general revenues.

Table 3  
Governmental Activities

	Total Cost of Services	Net Cost of Services	Total Cost of Services	Net Cost of Services
	2015	2015	2014	2014
Instruction	\$ 9,814,795	\$ 8,057,578	\$ 9,649,921	\$ 7,937,823
Support Services	4,329,822	3,922,899	4,327,121	3,890,125
Operation of Non-Instructional Services	586,653	(97,925)	604,263	(53,139)
Extracurricular Activities	196,312	47,911	186,962	66,576
Interest and Fiscal Charges	177,590	177,590	332,391	332,391
Issuance Costs	106,366	106,366	-	-
<b>Total</b>	<b>\$ 15,211,538</b>	<b>\$ 12,214,419</b>	<b>\$ 15,100,658</b>	<b>\$ 12,173,776</b>

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**THE SCHOOL DISTRICT'S FUNDS**

The School District's governmental funds are accounted for using the modified accrual basis of accounting. The General Fund had \$12,700,425 in revenues and other financing sources and \$12,652,439 in expenditures resulting in an increase in fund balance of \$47,986. The increase is due to revenues being greater than expenditures. The Bond Retirement Fund had \$6,705,341 in revenues and other financing sources and \$6,532,536 in expenditures and other financing uses resulting in an increase of fund balance of \$172,805.

***General Fund Budgeting Highlights***

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

During the course of fiscal year 2015, the School District made amendments to its General Fund budget. Final budgeted total revenues were \$201,845 above the original budget of \$12,317,537. The variance is primarily due to higher than anticipated intergovernmental revenue. Final total budgeted expenditures were \$47,175 below the original budget of \$12,740,637. The variance is due primarily to a decrease in budgeted expenditures as a result of conservative budgeting by the School District. The General Fund's ending unobligated cash balance was \$2,599,432.

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

***Capital Assets***

At the end of fiscal year 2015, the School District had \$41,758,076 invested in its capital assets. For additional information on capital assets, see Note 11 to the basic financial statements. Table 4 shows fiscal year 2015 balances compared to 2014.

Table 4  
 Capital Assets  
 (Net of Depreciation)

	Governmental Activities	
	2015	2014
Land	\$ 268,763	\$ 271,526
Land Improvements	8,905	8,787
Buildings and Improvements	38,871,304	39,831,610
Furniture and Equipment	2,333,923	2,414,929
Vehicles	275,181	142,266
Totals	\$ 41,758,076	\$ 42,669,118

Changes in capital assets from the prior year primarily resulted from depreciation and deletions which were partially offset by current year additions.



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***Debt***

At June 30, 2015, the School District had general obligation bonds (including premiums and accretion) outstanding of \$7,078,586. In fiscal year 2015, refunding bonds were issued to advance refund a portion of the Classroom Facilities General Obligation Bonds 2006. For additional information on debt, see Note 12 to the basic financial statements.

**CONTACTING THE SCHOOL DISTRICT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Kevin Kendall, Treasurer at Eastern Local School District, 11479 US Highway 62, Winchester, Ohio 45697.

**Eastern Local School District, Brown County**  
*Statement of Net Position*  
*June 30, 2015*

	Governmental Activities
<b>ASSETS:</b>	
Current Assets:	
Equity in Pooled Cash and Investments	\$ 4,502,750
Accounts Receivable	2,792
Intergovernmental Receivable	241,082
Taxes Receivable	4,641,993
Non-Depreciable Capital Assets	268,763
Depreciable Capital Assets, net	41,489,313
<i>Total Assets</i>	51,146,693
<b>DEFERRED OUTFLOWS OF RESOURCES:</b>	
Pensions:	
State Teachers Retirement System	758,180
School Employees Retirement System	387,816
Unamortized Deferred Amount on Refunding	415,503
<i>Total Deferred Outflows of Resources</i>	1,561,499
<b>LIABILITIES:</b>	
Current Liabilities:	
Accounts Payable	2,995
Accrued Wages and Benefits Payable	1,025,077
Intergovernmental Payable	219,088
Accrued Interest Payable	37,734
Matured Compensated Absences Payable	81,491
Non-Current Liabilities:	
Due Within One Year	649,528
Due in More Than One Year	
Net Pension Liability (See Note 8)	13,970,551
Other Amounts Due in More Than One Year	7,054,518
<i>Total Liabilities</i>	23,040,982
<b>DEFERRED INFLOWS OF RESOURCES:</b>	
Pensions:	
State Teachers Retirement System	2,108,285
School Employees Retirement System	484,399
Property Taxes not Levied to Finance Current Year Operations	3,087,487
<i>Total Deferred Inflows of Resources</i>	5,680,171
<b>NET POSITION:</b>	
Net Investment in Capital Assets	35,105,671
Restricted for Debt Service	1,396,372
Restricted for Capital Outlay	422,990
Restricted for Classroom Facilities Maintenance	132,632
Restricted for Other Purposes	193,603
Unrestricted	(13,264,229)
<i>Total Net Position</i>	\$ 23,987,039

The notes to the basic financial statements are an integral part of this statement.

**Eastern Local School District, Brown County**  
*Statement of Activities*  
For the Fiscal Year Ended June 30, 2015

	Program Revenues			Net (Expense) Revenue and Changes in Net Position
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	
<b>Governmental Activities:</b>				
<b>Instruction:</b>				
Regular	\$ 6,411,566	\$ 392,451	\$ 95,579	\$ (5,923,536)
Special	2,028,344	110,155	1,008,598	(909,591)
Vocational	106,863	7,844	39,488	(59,531)
Other	1,268,022	96,711	6,391	(1,164,920)
<b>Support Services:</b>				
Pupils	393,073	30,144	-	(362,929)
Instructional Staff	24,847	1,390	-	(23,457)
Board of Education	23,859	1,782	-	(22,077)
Administration	1,021,927	78,388	-	(943,539)
Fiscal	459,309	32,640	1,541	(425,128)
Business	1,102	85	-	(1,017)
Operation and Maintenance of Plant	1,273,545	78,236	99,214	(1,096,095)
Pupil Transportation	975,159	71,448	-	(903,711)
Central	157,001	12,055	-	(144,946)
Operation of Non-Instructional Services	586,653	238,159	446,419	97,925
Extracurricular Activities	196,312	96,168	52,233	(47,911)
Interest and Fiscal Charges	177,590	-	-	(177,590)
Issuance Costs	106,366	-	-	(106,366)
<i>Total Governmental Activities</i>	<u>\$ 15,211,538</u>	<u>\$ 1,247,656</u>	<u>\$ 1,749,463</u>	<u>(12,214,419)</u>
<b>General Revenues:</b>				
<b>Property Taxes Levied for:</b>				
General Purposes				3,459,166
Building Maintenance				61,639
Debt Service				795,190
Permanent Improvement				163,908
Grants and Entitlements not Restricted to Specific Programs				7,713,935
Gifts and Donations not Restricted to Specific Programs				30,731
Investment Earnings				19,901
Payments in Lieu of Taxes				54,032
Miscellaneous				36,227
<i>Total General Revenues</i>				<u>12,334,729</u>
<b>Special Item:</b>				
Return of Classroom Facilities Grant				(41,690)
<i>Change in Net Position</i>				78,620
<i>Net Position Beginning of Year - As Restated See Note 21</i>				<u>23,908,419</u>
<i>Net Position End of Year</i>				<u>\$ 23,987,039</u>

The notes to the basic financial statements are an integral part of this statement.

**Eastern Local School District, Brown County**  
*Balance Sheet*  
*Governmental Funds*  
*June 30, 2015*

	General	Bond Retirement	All Other Governmental Funds	Total Governmental Funds
<b>ASSETS:</b>				
Equity in Pooled Cash and Investments	\$ 2,696,493	\$ 1,107,988	\$ 698,269	\$ 4,502,750
Accounts Receivable	983	-	1,809	2,792
Intergovernmental Receivable	120,317	-	120,765	241,082
Taxes Receivable	3,582,331	826,028	233,634	4,641,993
<i>Total Assets</i>	<u>\$ 6,400,124</u>	<u>\$ 1,934,016</u>	<u>\$ 1,054,477</u>	<u>\$ 9,388,617</u>
<b>LIABILITIES:</b>				
Accounts Payable	\$ 2,527	\$ -	\$ 468	\$ 2,995
Accrued Wages and Benefits Payable	885,927	-	139,150	1,025,077
Intergovernmental Payable	185,564	-	33,524	219,088
Matured Compensated Absences Payable	81,491	-	-	81,491
<i>Total Liabilities</i>	<u>1,155,509</u>	<u>-</u>	<u>173,142</u>	<u>1,328,651</u>
<b>DEFERRED INFLOWS OF RESOURCES:</b>				
Property Taxes not Levied to Finance Current Year Operations	2,394,431	537,644	155,412	3,087,487
Unavailable Revenue - Delinquent Taxes	242,779	59,037	15,984	317,800
<i>Total Deferred Inflows of Resources</i>	<u>2,637,210</u>	<u>596,681</u>	<u>171,396</u>	<u>3,405,287</u>
<b>FUND BALANCES:</b>				
Restricted	-	1,337,335	717,805	2,055,140
Committed	55,737	-	-	55,737
Assigned	391,006	-	-	391,006
Unassigned	2,160,662	-	(7,866)	2,152,796
<i>Total Fund Balances</i>	<u>2,607,405</u>	<u>1,337,335</u>	<u>709,939</u>	<u>4,654,679</u>
<i>Total Liabilities, Deferred Inflows of Resources, and Fund Balances</i>	<u>\$ 6,400,124</u>	<u>\$ 1,934,016</u>	<u>\$ 1,054,477</u>	<u>\$ 9,388,617</u>

The notes to the basic financial statements are an integral part of this statement.

**Eastern Local School District, Brown County**  
*Reconciliation of Total Governmental Fund Balances to  
 Net Position of Governmental Activities  
 June 30, 2015*

<b>Total Governmental Fund Balances</b>		\$ 4,654,679
<i>Amounts reported for governmental activities in the statement of net position are different because:</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		41,758,076
Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds.		
Taxes		317,800
The net pension liability is not due and payable in the current period; therefore, the liability and related deferred inflows/outflows are not reported in the funds.		
Deferred outflows of resources related to pensions	1,145,996	
Deferred inflows of resources related to pensions	(2,592,684)	
Net Pension Liability	<u>(13,970,551)</u>	(15,417,239)
Some liabilities and deferred outflows are not due and payable in the current period and therefore are not reported in the funds. Those liabilities and deferred outflows consist of:		
Compensated Absences	(625,460)	
Bonds Payable	(6,420,000)	
Unamortized Bond Premium	(637,909)	
Capital Appreciation Bonds	(9,999)	
Accretion from Capital Appreciation Bonds	(10,678)	
Unamortized Deferred Amount on Refunding	415,503	
Accrued Interest Payable	<u>(37,734)</u>	
Total		<u>(7,326,277)</u>
<b>Net Position of Governmental Activities</b>		<u><u>\$ 23,987,039</u></u>

The notes to the basic financial statements are an integral part of this statement.

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

	General	Bond Retirement	All Other Governmental Funds	Total Governmental Funds
<b>REVENUES:</b>				
Property Taxes	\$ 3,486,228	\$ 801,787	\$ 227,329	\$ 4,515,344
Intergovernmental	8,158,295	118,924	1,186,180	9,463,399
Interest	19,672	-	229	19,901
Tuition and Fees	916,696	-	-	916,696
Rent	5,769	-	-	5,769
Extracurricular Activities	-	-	86,389	86,389
Gifts and Donations	30,731	-	-	30,731
Customer Sales and Services	-	-	238,801	238,801
Payments in Lieu of Taxes	42,586	8,730	2,716	54,032
Miscellaneous	34,448	-	1,779	36,227
<i>Total Revenues</i>	<u>12,694,425</u>	<u>929,441</u>	<u>1,743,423</u>	<u>15,367,289</u>
<b>EXPENDITURES:</b>				
<b>Current:</b>				
<b>Instruction:</b>				
Regular	5,271,359	-	126,174	5,397,533
Special	1,469,723	-	588,727	2,058,450
Vocational	104,211	-	-	104,211
Other	1,259,934	-	8,437	1,268,371
<b>Support Services:</b>				
Pupils	395,615	-	-	395,615
Instructional Staff	24,638	-	-	24,638
Board of Education	23,717	-	-	23,717
Administration	1,094,161	-	-	1,094,161
Fiscal	434,545	26,411	7,424	468,380
Business	1,102	-	-	1,102
Operation and Maintenance of Plant	1,040,718	-	254,604	1,295,322
Pupil Transportation	956,565	-	-	956,565
Central	162,967	-	-	162,967
Operation of Non-Instructional Services	988	-	588,848	589,836
Extracurricular Activities	131,622	-	68,952	200,574
Capital Outlay	280,574	-	64,728	345,302
<b>Debt Service:</b>				
Principal	-	560,000	-	560,000
Interest	-	170,225	-	170,225
Issuance Costs	-	106,366	-	106,366
<i>Total Expenditures</i>	<u>12,652,439</u>	<u>863,002</u>	<u>1,707,894</u>	<u>15,223,335</u>
Excess of Revenues Over (Under) Expenditures	41,986	66,439	35,529	143,954
<i>Other Financing Sources and Uses:</i>				
Refunding Bonds Issued	-	5,129,999	-	5,129,999
Premium on Refunding Bonds Issued	-	645,901	-	645,901
Payment to Refunded Bond Escrow Agent	-	(5,669,534)	-	(5,669,534)
Proceeds from Sale of Capital Assets	6,000	-	-	6,000
<i>Total Other Financing Sources and Uses</i>	<u>6,000</u>	<u>106,366</u>	<u>-</u>	<u>112,366</u>
Special Item - Return of Classroom Facilities Grant	-	-	(41,690)	(41,690)
<i>Net Change in Fund Balances</i>	47,986	172,805	(6,161)	214,630
<i>Fund Balances at Beginning of Year</i>	<u>2,559,419</u>	<u>1,164,530</u>	<u>716,100</u>	<u>4,440,049</u>
<i>Fund Balances at End of Year</i>	<u>\$ 2,607,405</u>	<u>\$ 1,337,335</u>	<u>\$ 709,939</u>	<u>\$ 4,654,679</u>

The notes to the basic financial statements are an integral part of this statement.

**Eastern Local School District, Brown County**  
*Reconciliation of the Statement of Revenues, Expenditures and Changes  
in Fund Balances of Governmental Funds to the Statement of Activities  
For the Fiscal Year Ended June 30, 2015*

<b>Net Change in Fund Balances - Total Governmental Funds</b>	\$	214,630
<i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
Governmental funds report capital outlays as expenditures. However in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital asset additions in the current period.		
Capital Asset Additions	345,302	
Current Year Depreciation	<u>(1,241,634)</u>	
Total		(896,332)
Governmental funds only report the disposal of assets to the extent proceeds are received from the sale. In the statement of activities a gain or loss is reported for each disposal. These are the amount of the loss on the disposal of capital assets and the proceeds from the sale of capital assets.		
Proceeds from Sale of Capital Assets	(6,000)	
Loss on Disposal of Capital Assets	<u>(8,710)</u>	
Total		(14,710)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Taxes		(35,441)
Bond proceeds are reported as other financing sources in governmental funds and thus contribute to the change in fund balances. In the government-wide statements, however, issuing debt increases long-term liabilities in the Statement of Net Position and does not affect the Statement of Activities.		
Refunding bonds issued	(5,129,999)	
Premium on bonds	<u>(645,901)</u>	
Total		(5,775,900)
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. The difference in the amount of interest on the Statement of Activities is the result of the following:		
Increase in accrued interest payable	(10,242)	
Amortization of bond premium	25,427	
Amortization of deferred amount on refunding	<u>(11,872)</u>	
Total		3,313
Repayment of long-term debt is reported as an expenditure in governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position. In the current fiscal year, these amounts consist of:		
Bond payments	560,000	
Early retirement incentives payments	12,533	
Payment to refunded bond escrow agent	<u>5,669,535</u>	
Total		6,242,068
Contractually required contributions are reported as expenditures in governmental funds; however, the statement of activities reports these amounts as deferred outflows.		
		950,233
Except for amounts reported as deferred inflows/outflows, changes in the net pension liability are reported as pension expense in the statement of activities.		
		(683,059)
Some items 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. These activities consist of:		
Decrease in compensated absences payable	84,496	
Increase in Accreted Debt	<u>(10,678)</u>	
Total		<u>73,818</u>
<b>Net Change in Net Position of Governmental Activities</b>	<b>\$</b>	<b><u>78,620</u></b>

The notes to the basic financial statements are an integral part of this statement.

**Eastern Local School District, Brown County**  
*Statement of Revenues, Expenditures and Changes*  
*In Fund Balance - Budget (Budgetary Basis) and Actual*  
*General Fund*  
*For the Fiscal Year Ended June 30, 2015*

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Total Revenues and Other Financing Sources	\$ 12,317,537	\$ 12,519,382	\$ 12,519,382	\$ -
Total Expenditures	<u>12,740,637</u>	<u>12,693,462</u>	<u>12,693,462</u>	<u>-</u>
Net Change in Fund Balance	(423,100)	(174,080)	(174,080)	-
Fund Balance at Beginning of Year	2,732,875	2,732,875	2,732,875	-
Prior Year Encumbrances Appropriated	<u>40,637</u>	<u>40,637</u>	<u>40,637</u>	<u>-</u>
Fund Balance at End of Year	<u>\$ 2,350,412</u>	<u>\$ 2,599,432</u>	<u>\$ 2,599,432</u>	<u>\$ -</u>

The notes to the basic financial statements are an integral part of this statement.



**Eastern Local School District, Brown County**  
*Statement of Fiduciary Assets and Liabilities*  
*Agency Fund*  
*June 30, 2015*

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	<u>Agency Fund</u>
ASSETS:	
Equity in Pooled Cash and Investments	\$ <u>60,161</u>
LIABILITIES:	
Undistributed Monies	\$ <u>60,161</u>

The notes to the basic financial statements are an integral part of this statement.

**Eastern Local School District, Brown County**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2015*

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

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

The School District was established in 1957 through the consolidation of existing land areas and school districts. The School District serves an area of approximately 143 square miles. It is located in Brown County and includes the Villages of Macon and Russellville and various townships within the County. It is staffed by 67 non-certified and 79 certified employees providing education to 1,358 students and other community members.

**Reporting Entity**

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

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

Entities which perform activities within the School District's boundaries for the benefit of its residents are excluded from the accompanying financial statements because the School District is not financially accountable for these entities nor are they fiscally dependent on the School District. These entities include the Boosters Club, Parent Teacher Organizations, and Alumni Associations.

The School District is associated with three organizations, one of which is defined as a jointly governed organization and two as insurance purchasing pools of which one is also a public entity shared risk pool. These organizations are the South Central Ohio Computer Association Council of Governments (SCOCA COG), the Better Business Bureau of Central Ohio, Inc. Group Rating Plan (GRP), and the Brown County Schools Benefits Consortium. The Brown County Schools Benefits Consortium is made up of a public entity shared risk pool and an insurance purchasing pool. These organizations are presented in Notes 13, 14 and 15 to the basic financial statements.

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

The financial statements of the Eastern Local School 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 more significant of the School District's accounting policies are described below.

**Eastern Local School District, Brown County**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2015*

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

**Fund Accounting**

The School District's accounts are maintained on the basis of funds, each of which is considered a separate accounting entity. Fund accounting is designed to demonstrate legal compliance and to aid management by segregating transactions related to specific School District functions or activities. The operation of each fund is accounted for within a separate set of self-balancing accounts. The funds of the School District fall within two categories: governmental and fiduciary.

**Governmental Funds**

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

**General Fund**

The General Fund is the general operating fund of the School District and is used to account for all financial resources not accounted for and reported in another fund. The General Fund is available to the School District for any purpose provided it is expended or transferred according to the school laws of Ohio.

**Bond Retirement Fund**

The Bond Retirement Fund is a debt service fund used to account for the accumulation of financial resources restricted, committed, or assigned for the payment of general long-term debt. The major source of revenue for this fund is tax levy proceeds.

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

**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 School District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the School District's own programs. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. In accordance with GASB 34, fiduciary funds are not included in the government-wide statements. The School District's only fiduciary fund is an agency fund, which is used to account for student-managed activities.

**Basis of Presentation**

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

**Eastern Local School District, Brown County**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2015*

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

**Government-wide Financial Statements**

The statement of net position and the statement of activities display information about the School District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds.

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

**Fund Financial Statements**

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

**Measurement Focus**

Government-Wide Financial Statements - The government-wide financial statements are prepared using the economic resources measurement focus. All assets, liabilities and deferred inflows/outflows of resources associated with the operation of the School District are included on the statement of net position. The statement of activities presents increases (i.e., revenues) and decreases (i.e., expenses) in total net position.

Fund Financial Statements - All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets, current liabilities and deferred inflows/outflows 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.

**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. The fund financial statements are prepared using either the modified accrual basis of accounting for governmental funds or the accrual basis of accounting for fiduciary funds. Differences in the accrual and the modified accrual basis of accounting arise in the recognition of revenue, the recording of unavailable revenue, the presentation of expenses versus expenditures, the recording of deferred outflows of resources related to unamortized deferred amounts on refunding, the recording of deferred inflows and outflows of resources related to net pension liabilities, and the recording of net pension liabilities.

**Eastern Local School District, Brown County**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2015*

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

**Revenues – Exchange and Non-exchange Transactions**

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

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

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

**Deferred Outflows and Deferred Inflows of Resources**

Deferred outflows of resources represent a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expenditures/expenses) until then. The School District recorded a deferred outflow of resources for the unamortized portion of the deferred amount on refunding of bonds as of June 30, 2015 and for pensions. The deferred outflows of resources related to the pension are explained in Note 8. The School District also reports a deferred inflow of resources which represents an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenues) until that time. For the School District these amounts consist of taxes and grants which are not collected in the available period and pensions. The difference between deferred inflows on the Statement of Net Position and the Balance Sheet is partially due to delinquent property taxes not received during the available period. These were reported as revenues on the Statement of Activities and not recorded as deferred inflows on the Statement of Net Position. Deferred inflows of resources related to pension are only reported on the Statement of Net Position. (See Note 8)

**Expenses/Expenditures**

On the accrual basis of accounting, expenses are recognized at the time they are incurred. The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable, except for (1) principal and interest on general long-term debt and capital lease obligations, which is recorded when due, (2) the costs of accumulated unpaid vacation, personal leave and sick leave are reported as fund liabilities as payments come due each period upon the occurrence of employee resignations and retirements. Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds.

**Eastern Local School District, Brown County**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2015*

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

**Budgetary Process**

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

The certificate of estimated resources may be amended during the year if projected increases or decreases in revenue are identified by the School District Treasurer. The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts in the certificate when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts in the final amended certificate issued during fiscal year 2015.

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

**Cash and Cash Equivalents**

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

During fiscal year 2015, the School District's investments were limited to funds invested in Federal Home Loan Bank Bonds, Federal National Mortgage Association Bonds, and money market funds. All investments are reported at market value.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the General Fund and All Other Governmental Funds during fiscal year 2015 amounted to \$19,672, and \$229, respectively.

Investments of the cash management pool and investments with an original maturity of three months or less at the time they are purchased by the School District are considered to be pooled cash and investments and are reported as "Equity in Pooled Cash and Investments" in the accompanying financial statements.

**Capital Assets and Depreciation**

All capital assets of the School District are general capital assets that are associated with governmental activities. General capital assets 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.

**Eastern Local School District, Brown County**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2015*

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The School District maintains a capitalization threshold of \$1,500. The School District does not have any infrastructure.

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. Improvements are capitalized. The School District does not capitalize interest for capital asset purchases. All reported capital assets except land are depreciated. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Land Improvements	5-20 years
Building and Improvements	30-40 years
Furniture and Equipment	5-20 years
Vehicles	5 years

**Compensated Absences**

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the School District will compensate the employees for the benefits through paid time off or some other means. Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the School District has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employees' wage rates at fiscal year end, taking into consideration any limits specified in the School District's termination policy.

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

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

**Accrued Liabilities and Long-Term Obligations**

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

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

**Net Position**

Net position represents the difference between assets, liabilities and deferred inflows/outflows 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 either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Net position restricted for other purposes represents balances in special revenue funds for grants whose use is restricted by grant agreements.

**Eastern Local School District, Brown County**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2015*

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

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

The government-wide statement of net position reports \$2,145,597 in restricted net position, none of which is restricted by enabling legislation.

**Interfund Transactions and Balances**

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures in the purchaser funds. Flows of cash or goods from one 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. Interfund transfers within governmental activities are eliminated in the statement of activities. Repayments from funds responsible for particular expenditures to the funds that initially paid for them are not presented on the financial statements.

Activity between funds that represent lending/borrowing arrangements outstanding at the end of the fiscal year, are referred to as either "due to/from other funds" or as "Interfund receivable/payable." All unpaid reimbursements between fund are reported as "due to/from other funds." These amounts are eliminated in the governmental activities column of the statement of net position.

**Fund Balance**

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

***Nonspendable*** The nonspendable fund balance classification includes amounts that cannot be spent because they are not in the spendable form, or legally or contractually required to be maintained intact. The "not in spendable form" criterion includes items that are not expected to be converted to cash.

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

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

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

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



**Eastern Local School District, Brown County**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2015*

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

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

**Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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.

**Bond Premiums/Issuance Costs/ Gain or Loss on Advance Refunding**

In the government-wide financial statements, bond premiums are deferred and amortized over the term of the bonds using the straight-line method since the results are not significantly different from the effective interest method. Bond premiums are presented as an addition of the face amount of the bonds payable whereas bond issuance costs are expensed in the year incurred.

On the governmental fund financial statements, bond premiums and issuance costs are recognized in the current period.

In the government-wide financial statements, an advance refunding resulting in the defeasance of debt generates an accounting gain or loss calculated by comparing the reacquisition price and the net carrying amount of the old debt. This accounting gain/loss is amortized as interest expense over the remaining life of the old debt or the life of the new debt, whichever is shorter, and is presented as a deferred inflow/outflow of resources on the Statement of Net Position.

**Pensions**

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

**Extraordinary and Special Items**

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the School District and that are either unusual in nature or infrequent in occurrence. The School District had no extraordinary items. The School District reported one special item for the return of classroom facilities monies. The School District's classroom facilities capital project was closed out and the remaining funds were to be returned.

**Eastern Local School District, Brown County**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2015*

**NOTE 3 - BUDGETARY BASIS OF ACCOUNTING**

While the School District is reporting financial position, results of operations and changes in fund balance on the basis of accounting principles generally accepted in the United States of America (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The statement of revenues, expenditures and changes in fund balances - budget (budgetary basis) and actual presented for the General Fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and GAAP basis are that:

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

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

Net Change in Fund Balance	
	<u>General</u>
GAAP Basis	\$47,986
Adjustments:	
Revenue Accruals	(138,552)
Expenditure Accruals	(60,382)
Perspective Difference:	
Activity of Funds Reclassified for GAAP Reporting Purposes	(11,476)
Encumbrances	(11,656)
Budget Basis	<u>\$174,080</u>

**NOTE 4 - DEPOSITS AND INVESTMENTS**

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

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

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

Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories.

**Eastern Local School District, Brown County**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2015*

**NOTE 4 - DEPOSITS AND INVESTMENTS** (Continued)

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

1. United States treasury notes, bills, bonds, or other obligations of or securities issued by the United States treasury or any other obligation guaranteed as to the payment of principal and interest by the United States;
2. Bonds, notes, debentures, or other obligations of or securities issued by any federal government agency or instrumentality, including, but not limited to, the federal national mortgage association, federal home loan bank, federal farm credit bank, federal home loan mortgage corporation, government national mortgage association, and student loan marketing association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above, provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. Interim deposits in the eligible institutions applying for interim money as provided in section 135.08 of the Revised Code;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
7. The State Treasurer's investment pool (STAR Ohio);
8. Commercial paper notes issued by any entity that is defined in division (D) of section 1705.01 of the Revised Code and has assets exceeding five hundred million dollars, and to which notes are rated at the time of purchase in the highest classification established by at least two standard rating services; the aggregate value of the notes does not exceed ten percent of the aggregate value of the outstanding commercial paper of the issuing corporation; the notes mature no later than one hundred eighty days after purchase; and
9. Bankers' acceptances of banks that are members of the federal deposit insurance corporation to which obligations both the following apply: obligations are eligible for purchase by the Federal Reserve System and the obligations mature no later than one hundred eighty days after purchase.

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

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 the purchase unless matched to a specific obligation or debt of the School District, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

**Eastern Local School District, Brown County**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2015*

**NOTE 4 - DEPOSITS AND INVESTMENTS** (Continued)

Deposits: Custodial credit risk is the risk that in the event of the failure of the counterparty, the School District's deposits may not be returned. According to state law, public depositories must give security for all public funds on deposit in excess of those funds that are insured by the Federal Deposit Insurance Corporation (FDIC) or by any other agency or instrumentality of the federal government. These institutions may either specifically collateralize individual amounts in lieu of amounts insured by the FDIC, or may pledge a pool of government securities valued at least 105% of the total value of public monies on deposit at the institution. The School District's policy is to deposit money with financial institutions that are able to abide by the laws governing insurance and collateralization of public funds.

As of June 30, 2015, the School District's bank balance of \$3,831,754 is either covered by FDIC or collateralized by the financial institutions public entity deposit pools in the manner described above.

Investments: As of June 30, 2015, the School District had the following investments and maturities:

<u>Description:</u>	Fair Value	Investment Maturities (in years)		
		Less than 1	1 - 2	3 - 5
Fifth Third Institutional Government				
Money Market	99,892	-	-	99,892
Federal Home Loan Bank Bonds	649,298	-	-	649,298
Federal National Mortgage Association Bonds	249,078	-	-	249,078
Total Investments	<u>\$ 998,268</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 998,268</u>

Interest rate risk – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. In accordance with the investment policy, the School District manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio.

Credit risk – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. At year end, the School District's investments were limited to Federal Home Loan Bank Bonds, Federal National Mortgage Association Bonds, and Money Market Funds. Investments in the Fifth Third Institutional Government Money Market, Federal Home Loan Bank Bonds and Federal National Mortgage Association Bonds were rated AA+ by Standard & Poor's and Aaa by Moody's. The School District's investment policy does not address credit risk beyond allowing investments as authorized in the Ohio Revised Code.

Concentration of credit risk – Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The School District's investment policy allows investments as authorized in the Ohio Revised Code. The School District has invested 10.00% in Fifth Third Institutional Government Money Market, 65.04% in Federal Home Loan Bank Bonds, and 24.96% in Federal National Mortgage Association Bonds.

Custodial credit risk - Custodial credit risk is the risk that in the event of the failure of the counterparty, the School District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. All of the School District's securities are either insured and registered in the name of the School District or at least registered in the name of the School District. Of the School District's investment in money market funds, the entire balance is collateralized by underlying securities pledged by the investment's counterparty, not in the name of the School District. The School District's investment policy does not address custodial credit risk beyond the requirements of the Ohio Revised Code.

**Eastern Local School District, Brown County**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2015*

**NOTE 5 - PROPERTY TAXES**

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

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the School District. Real property tax revenue received in calendar year 2015 represents collections of calendar year 2014 taxes. Real property taxes received in calendar year 2015 were levied after April 1, 2014, on the assessed value listed as of January 1, 2014, the lien date. Assessed values for real property taxes are established by State law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually.

If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar year 2015 represents collections of calendar year 2014 taxes. Public utility real and tangible personal property taxes received in calendar year 2015 became a lien on December 31, 2013, were levied after April 1, 2014, and are collected in 2015 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

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

	2014 Second- Half Collections		2015 First- Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential and Other Real Estate	\$ 159,166,000	92.07%	\$ 160,616,830	92.43%
Public Utility	13,703,090	7.93%	13,147,010	7.57%
Total Assessed Value	\$ 172,869,090	100.00%	\$ 173,763,840	100.00%
 Tax rate per \$1,000 of assessed valuation	 \$ 32.80		 \$ 32.80	

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

Accrued property taxes receivable represent delinquent taxes outstanding, the late settlement of personal property taxes and real property, tangible personal property, and public utility taxes which became measurable as of June 30, 2015 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the delayed settlement of personal property tax and the amounts available as an advance at June 30 were levied to finance current fiscal year operations. The receivable is therefore offset by a credit to deferred inflows of resources for that portion not levied to finance current year operations. The amount available as an advance is recognized as revenue. The amount available as an advance at June 30, 2015, was \$798,445 in the General Fund and \$247,110 in all other governmental funds.

**Eastern Local School District, Brown County**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2015*

**NOTE 6 - RECEIVABLES**

Receivables at June 30, 2015, consisted of property taxes, accounts, and intergovernmental grants. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable conditions of State programs, and the current year guarantee of federal funds.

A summary of the intergovernmental receivables follows at June 30, 2015:

	<u>Amounts</u>
Major Fund:	
General	<u>\$ 120,317</u>
Total Major Fund	120,317
Non-Major Funds:	
Food Service	12,426
Alternative School Grant	7,076
Special Education, IDEA Part B	35,779
Title I	64,464
Title II-A Teacher Quality	<u>1,020</u>
Total Non-Major Funds	120,765
Total Intergovernmental Receivables	<u><u>\$ 241,082</u></u>

**NOTE 7 - RISK MANAGEMENT**

The School District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2015, the School District contracted with Ohio School Plan for general liability insurance with a \$1,000,000 single occurrence limit and a \$5,000,000 aggregate. Property is protected by the Ohio School Plan in the amount of \$55,086,493. The School District's vehicles are covered by the Ohio School Plan and hold a \$1,000 deductible for buses and \$250 for all other autos for comprehensive and a \$1,000 deductible for buses and \$500 for all other autos for collision with a \$3,000,000 limit on any accident. Violence coverage is provided by the Ohio School Plan with a \$1,000,000 single occurrence and aggregate.

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

For fiscal year 2015, the School District participated in Better Business Bureau of Central Ohio, Inc. Group Rating Plan (GRP), an insurance purchasing pool (Note 14). The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement ensures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Sheakley UniService. provides administrative, cost control and actuarial services to the GRP.

The School District participates in the Brown County Schools Benefits Consortium (the Consortium), a public entity shared risk pool (Note 15) consisting of nine districts. The School District is responsible for providing a current listing of enrolled employees and for providing timely pro-rata payments of premiums to the Consortium for employee health coverage and benefits. The Consortium is responsible for the management and operations of the program. Upon termination from the Consortium, for any reason, the terminated member assumes and is responsible for the payment of any delinquent contributions.

**Eastern Local School District, Brown County**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2015*

**NOTE 8 - DEFINED BENEFIT PENSION PLANS**

**Net Pension Liability**

For fiscal year 2015, Governmental Accounting Standards Board (GASB) Statement No. 68, “Accounting and Financial Reporting for Pensions” and GASB Statement No. 71, “Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68” were effective. These GASB pronouncements had a significant effect on beginning net position as reported June 30, 2014, as more fully described in Note 21. The net pension liability has been disclosed below.

Pensions are a component of exchange transactions—between an employer and its employees—of salaries and benefits for employee services. Pensions are provided to an employee—on a deferred-payment basis—as part of the total compensation package offered by an employer for employee services each financial period.

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

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

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

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

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

**Eastern Local School District, Brown County**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2015*

**NOTE 8 - DEFINED BENEFIT PENSION PLANS** (continued)

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

Age and service requirements for retirement are as follows:

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

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

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

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

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

The School District’s contractually required contribution to SERS was \$234,780 for fiscal year 2015. Of this amount \$16,162 is reported as an intergovernmental payable.

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

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



**Eastern Local School District, Brown County**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2015*

**NOTE 8 - DEFINED BENEFIT PENSION PLANS** (continued)

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

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

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

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

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

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

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

The School District's contractually required contribution to STRS Ohio was \$640,264 for fiscal year 2015. Of this amount \$111,396 is reported as an intergovernmental payable.

**Eastern Local School District, Brown County**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2015*

**NOTE 8 - DEFINED BENEFIT PENSION PLANS** (continued)

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

The net pension liability reported as of June 30, 2015 was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The School District's proportion of the net pension liability was based on the School District's share of contributions to the pension plan relative to the projected contributions of all participating entities. Following is information related to the proportionate share as well as the pension expense:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportionate Share of the Net Pension Liability	\$2,984,539	\$10,986,012	\$13,970,551
Proportion of the Net Pension Liability	0.058972%	0.04516632%	
Pension Expense	\$175,515	\$507,544	\$683,059

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

<b>Deferred Outflows of Resources</b>	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Differences between expected and actual economic experience	\$25,402	\$105,764	\$131,166
Differences between School District contributions and proportionate share of contributions	64,598	-	64,598
School District contributions subsequent to the measurement date	<u>297,817</u>	<u>652,416</u>	<u>950,233</u>
Total	<u><u>\$387,817</u></u>	<u><u>\$758,180</u></u>	<u><u>\$1,145,997</u></u>

<b>Deferred Inflows of Resources</b>	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Differences between projected and actual investment earnings	\$484,399	\$2,032,454	\$2,516,853
Differences between School District contributions and proportionate share of contributions	<u>0</u>	<u>75,831</u>	<u>75,831</u>
Total	<u><u>\$484,399</u></u>	<u><u>\$2,108,285</u></u>	<u><u>\$2,592,684</u></u>

**Eastern Local School District, Brown County**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2015*

**NOTE 8 - DEFINED BENEFIT PENSION PLANS** (continued)

**Net Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions** (continued)

\$950,233 reported as deferred outflows of resources related to pension resulting from School District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

	SERS	STRS	Total
Fiscal Year Ending June 30:			
2016	(\$98,600)	(\$500,630)	(\$599,230)
2017	(98,600)	(500,630)	(599,230)
2018	(98,600)	(500,630)	(599,230)
2019	(98,599)	(500,631)	(599,230)
Total	(\$394,399)	(\$2,002,521)	(\$2,396,920)

**Actuarial Assumptions - SERS**

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

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

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

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

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

**Eastern Local School District, Brown County**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2015*

**NOTE 8 - DEFINED BENEFIT PENSION PLANS** (continued)

**Actuarial Assumptions - SERS** (continued)

For post-retirement mortality, the table used in evaluating allowances to be paid is the 1994 Group Annuity Mortality Table set back one year for both men and women. Special mortality tables are used for the period after disability retirement. The most recent experience study was completed June 30, 2010.

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

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

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

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

	<u>1% Decrease (6.75%)</u>	<u>Current Discount Rate (7.75%)</u>	<u>1% Increase (8.75%)</u>
School District's proportionate share of the net pension liability	\$4,258,051	\$2,984,539	\$1,913,406

**Eastern Local School District, Brown County**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2015*

**NOTE 8 - DEFINED BENEFIT PENSION PLANS** (continued)

**Actuarial Assumptions - STRS**

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

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

Mortality rates were based on the RP-2000 Combined Mortality Table (Projection 2022—Scale AA) for Males and Females. Males' ages are set-back two years through age 89 and no set-back for age 90 and above.

Females younger than age 80 are set back four years, one year set back from age 80 through 89 and not set back from age 90 and above.

Actuarial assumptions used in the June 30, 2014, valuation are based on the results of an actuarial experience study, effective July 1, 2012.

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

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

**Discount Rate** The discount rate used to measure the total pension liability was 7.75 percent as of June 30, 2014. The projection of cash flows used to determine the discount rate assumes member and employer contributions will be made at the statutory contribution rates in accordance with rate increases described above. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, STRS' fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 2014. Therefore, the long-term expected rate of return on pension plan investments of 7.75 percent was applied to all periods of projected benefit payment to determine the total pension liability as of June 30, 2014.

**Eastern Local School District, Brown County**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2015*

**NOTE 8 - DEFINED BENEFIT PENSION PLANS** (continued)

**Actuarial Assumptions – STRS** (continued)

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

	1% Decrease (6.75%)	Discount Rate (7.75%)	1% Increase (8.75%)
School District's proportionate share of the net pension liability	\$15,727,674	\$10,986,012	\$6,976,162

**Social Security System**

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System of Ohio have an option to choose Social Security or the School Employees Retirement System. As of June 30, 2015, one of the School District's members of the Board of Education has elected Social Security. The contribution rate is 6.2 percent of wages.

**NOTE 9 - POSTEMPLOYMENT BENEFITS**

**State Teachers Retirement System**

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

**Funding Policy** – Ohio Revised Code Chapter 3307 authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS. Active employee members do not contribute to the Health Care Plan. All benefit recipients, for the most recent year, pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For fiscal year 2015, STRS did not allocate any employer contributions to post-employment health care. The School District's contributions for health care for the fiscal years ended June 30, 2015, 2014, and 2013 were \$0, \$46,574, and \$37,239 respectively. The full amount has been contributed for fiscal years 2015, 2014 and 2013.

**Eastern Local School District, Brown County**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2015*

**NOTE 9 - POSTEMPLOYMENT BENEFITS** (continued)

**School Employees Retirement System**

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

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

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required basic benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. For fiscal year 2015, 0.82 percent of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. For fiscal year 2015, this amount was \$20,450. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2015, the School District's surcharge obligation was \$27,233.

The School District's contributions for health care for the fiscal years ended June 30, 2015, 2014, and 2013 were \$47,491, \$36,576, and \$49,190, respectively. The full amount has been contributed for fiscal years 2015, 2014 and 2013.

**NOTE 10 - EMPLOYEE BENEFITS**

**Compensated Absences**

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

Teachers, administrators and classified employees earn sick leave at the rate of one and one-fourth days per month for a total of 15 days of sick leave for each year under contract. Sick leave may be accumulated up to a maximum of 220 days for teachers and classified personnel. Administrators with a 242 day contract may accumulate up to a maximum of 286 days, with a 222 day contract may accumulate up to a maximum of 264 days, and with a 202 day contract may accumulate up to 242 days. Upon retirement, payment is made for one-fourth of the maximum allowable accumulation for teachers, administrators, and classified personnel.

**Eastern Local School District, Brown County**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2015*

**NOTE 10 - EMPLOYEE BENEFITS** (continued)

**Other Employee Benefits**

The School District provides life insurance and accidental death and dismemberment insurance to most employees through Lincoln National Life. Dental insurance is provided by the School District to all employees through Dental Care Plus. Vision insurance is provided by the School District to all employees through Vision Service Plan.

**Early Retirement Incentive**

The School District offers an Early Retirement Incentive (Super-Severance) program to all certified employees. The employee must retire in the first year they become eligible. For these employees, they must give written notice to the Superintendent by April 1<sup>st</sup> of the year he/she becomes eligible for “full retirement.”

**Severance Payout Obligation**

There were several employees who took advantage of the incentive noted in the second paragraph of C. above in prior years. The School district was making their severance payouts over a five year period accordingly. The obligation was paid off during fiscal year 2015.

**NOTE 11 – CAPITAL ASSETS**

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

	Balance 6/30/2014	Additions	Deletions	Balance 6/30/2015
<b>Governmental Activities</b>				
Capital Assets, Not Being Depreciated				
Land	\$ 271,526	\$ -	\$ (2,763)	\$ 268,763
Total Capital Assets, Not Being Depreciated	271,526	-	(2,763)	268,763
Capital Assets Being Depreciated				
Land Improvements	313,995	4,500	-	318,495
Buildings and Improvements	45,334,189	-	(66,992)	45,267,197
Furniture and Equipment	4,108,105	162,650	-	4,270,755
Vehicles	1,544,169	178,152	-	1,722,321
Total Capital Assets Being Depreciated	51,300,458	345,302	(66,992)	51,578,768
Less: Accumulated Depreciation:				
Land Improvements	(305,208)	(4,382)	-	(309,590)
Buildings and Improvements	(5,502,579)	(948,359)	55,045	(6,395,893)
Furniture and Equipment	(1,693,176)	(243,656)	-	(1,936,832)
Vehicles	(1,401,903)	(45,237)	-	(1,447,140)
Total Accumulated Depreciation	(8,902,866)	(1,241,634)	55,045	(10,089,455)
Total Capital Assets Being Depreciated, Net	42,397,592	(896,332)	(11,947)	41,489,313
Governmental Capital Assets, Net	\$ 42,669,118	\$ (896,332)	\$ (14,710)	\$ 41,758,076



**Eastern Local School District, Brown County**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2015*

**NOTE 11 – CAPITAL ASSETS** (continued)

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$1,165,308
Special	588
Vocational	4,696
Support Services:	
Pupils	468
Instructional Staff	6,743
Board of Education	651
Administration	977
Fiscal	357
Operation and Maintenance of Plant	11,545
Pupil Transportation	44,602
Operation of Non-Instructional Services	5,699
Total Depreciation Expense	<u>\$1,241,634</u>

**NOTE 12 - LONG-TERM OBLIGATIONS**

The changes in the School District's long-term obligations during the fiscal year 2015 were as follows:

	Principal Outstanding 06/30/14*	Additions	Deductions	Principal Outstanding 06/30/15	Due Within One Year
School Construction/Remodeling Bonds 1995 6.25%	\$ 1,160,000	\$ -	\$ (260,000)	\$ 900,000	\$ 285,000
Classroom Facilities General Obligation Bonds 2006 4% - 4.75% Premium	5,830,000 129,595	- -	(5,355,000) (119,645)	475,000 9,950	235,000 -
Classroom Facilities General Obligation Bonds 2014 1% - 4.00% Premium	- -	5,120,000 645,901	(75,000) (17,942)	5,045,000 627,959	55,000 -
2014 Capital Appreciation Bonds 2014 Capital Appreciation Bonds Accretion	- - -	9,999 10,678	- -	9,999 10,678	- -
Total Long-Term Bonds	<u>7,119,595</u>	<u>5,786,578</u>	<u>(5,827,587)</u>	<u>7,078,586</u>	<u>575,000</u>
Net Pension Liability:					
STRS	13,086,466	-	(2,100,454)	10,986,012	-
SERS	3,506,876	-	(522,337)	2,984,539	-
Total Net Pension Liability	<u>16,593,342</u>	<u>-</u>	<u>(2,622,791)</u>	<u>13,970,551</u>	<u>-</u>
Compensated Absences Severance Payout Obligation	709,956 12,533	693,540 -	(778,036) (12,533)	625,460 -	74,528 -
Total General Long-Term Obligations	<u>\$ 24,435,426</u>	<u>\$ 6,480,118</u>	<u>\$ (9,240,947)</u>	<u>\$ 21,674,597</u>	<u>\$ 649,528</u>

\* As restated - see Note 21

**Eastern Local School District, Brown County**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2015*

**NOTE 12 - LONG-TERM OBLIGATIONS** (continued)

On March 1, 1995, the School District issued \$3,340,000 in voted general obligation bonds for the purpose of constructing, remodeling, reconstructing and adding to school buildings. The bonds were issued for a twenty-three year period with final maturity in 2018. The bonds are being retired from the Bond Retirement Fund.

On October 23, 2006, the School District issued \$7,165,000 in general obligation classroom facilities bonds for the purpose of retiring the \$7,165,000 bond anticipation notes which were used for the purpose of school improvement. \$5,130,000 of the Bonds were defeased with the proceeds from the refunding bonds issued during fiscal year 2015. The remaining \$475,000 will be retired with property taxes from the Debt Service Fund through December 2016.

On October 16, 2014, the School District issued \$5,129,999 in Classroom Facilities General Obligation Bonds, advance refunding \$5,130,000 of the Classroom Facilities General Obligation Bonds issued in 2006. The bonds were issued for a 17 year period with final maturity on December 1, 2031. The bonds are being retired with property taxes from the Debt Service Fund.

The advance refunding of the Classroom Facilities General Obligation Bonds 2006 resulted in a difference of \$427,374 between the net carrying amount of the debt and the acquisition price. This difference, reported in the accompanying financial statements as a deferred outflow of resources, is being amortized to interest expense over the life of the bonds using the straight-line method. The amortization for fiscal year 2015 was \$11,872.

The School District defeased \$5,130,000 of the Classroom Facilities General Obligation Bonds 2006 by placing the proceeds of the new bonds in an irrevocable trust to provide for all future debt service payments due on the old bonds. Accordingly, the trust assets and the liability of the defeased bonds are not included in the School District's financial statements. As of June 30, 2015, \$475,000 of the bonds was unmatured and unpaid.

\$5,120,000 of the 2014 bonds are considered current interest bonds (serial bonds) which will be redeemed over a period through December 1, 2031. \$9,999 are capital appreciation bonds which mature December 1, 2016 and 2017. These bonds have an equivalent interest rate of 178.50474% and will mature at full values of \$55,000 on December 1, 2016 and \$305,000 on December 31, 2017. These bonds were accreted \$10,678 during fiscal year 2015.

All general obligation debt is supported by the full faith and credit of the School District. Compensated absences and the Severance Payout Obligation are being paid from the funds from which the employees' salaries are paid with the General Fund being the most significant fund.

The School District's overall legal debt margin was \$9,208,747 with an unvoted debt margin of \$173,764 at June 30, 2015. Principal and interest requirements to retire general obligation debt at June 30, 2015 are as follows:

Fiscal Year Ending June 30,	School Construction / Remodeling 1995		School Improvement Bonds 2006		School Improvement Bonds 2014		Capital	Total
	Principal	Interest	Principal	Interest	Principal	Interest	Appreciation	
2016	\$ 285,000	\$ 47,344	\$ 235,000	\$ 243,713	\$ 55,000	\$ 147,875	\$ -	\$ 1,013,932
2017	300,000	29,063	240,000	234,213	3,924	143,676	55,000	1,005,876
2018	315,000	9,844	-	-	6,075	141,524	305,000	777,443
2019	-	-	-	-	300,000	145,350	-	445,350
2020	-	-	-	-	310,000	140,775	-	450,775
2021-2025	-	-	-	-	1,645,000	607,439	-	2,252,439
2026-2030	-	-	-	-	1,880,000	352,288	-	2,232,288
2031-2032	-	-	-	-	855,000	34,500	-	889,500
Totals	<u>\$ 900,000</u>	<u>\$ 86,251</u>	<u>\$ 475,000</u>	<u>\$ 477,926</u>	<u>\$ 5,054,999</u>	<u>\$ 1,713,427</u>	<u>\$ 360,000</u>	<u>\$ 9,067,603</u>

**Eastern Local School District, Brown County**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2015*

**NOTE 12 - LONG-TERM OBLIGATIONS** (continued)

The above amortization for capital appreciation bonds reflects the fully accreted value of those bonds and will not agree to the schedule on page 43.

**NOTE 13 - JOINTLY GOVERNED ORGANIZATION**

**South Central Ohio Computer Association Council of Governments**

The School District is a participant in the South Central Ohio Computer Association Council of Governments (SCOCA COG) which is an information technology center. SCOCA COG is a council of governments providing information technology services to 59 public education entities, 60 non-public education entities, and public libraries from 24 Ohio counties. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. The governing board of SCOCA COG consists of two representatives from each of the eleven participating counties, two school treasurers, and a representative for the fiscal agent. SCOCA COG is not accumulating significant financial resources nor is it experiencing fiscal stress that may cause an additional financial benefit to or burden on members in the future. The School District paid \$97,218 for services provided during fiscal year 2015. Financial information for SCOCA COG can be obtained from their fiscal office located at Pike County Career Technology Center, P.O. Box 577, 175 Beaver Creek, Piketon, Ohio 45661.

**NOTE 14 - INSURANCE PURCHASING POOL**

**Better Business Bureau of Central Ohio, Inc. Group Rating Plan**

The School District participates in the Better Business Bureau of Central Ohio, Inc. Group Rating Plan (GRP), an insurance purchasing pool. The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP.

**NOTE 15 - PUBLIC ENTITY SHARED RISK POOL**

**Brown County Schools Benefits Consortium**

The Brown County Schools Benefits Consortium, a public entity shared risk and insurance purchasing pool, currently operates to provide health insurance (insurance purchasing pool) and dental coverage (public entity shared risk pool) to enrolled employees of the consortium members and to eligible dependents of those enrolled employees. Six Brown County school districts (Eastern, Fayetteville-Perry, Georgetown, Ripley-Union-Lewis-Huntington, Southern Hills Joint Vocational and Western Brown Schools) and two Highland County school districts (Lynchburg-Clay and Bright Schools) have entered into an agreement with the Brown County Educational Service Center to form the Brown County Schools Benefits Consortium. The overall objectives of the consortium are to formulate and administer a program of health and dental insurance for the benefit of the consortium members' employees and their dependents. The consortium contracts with Humana to provide medical insurance directly to consortium member employees. The School District pays premiums to the consortium based on employee membership. For dental coverage the consortium acts as a public entity shared risk pool. Each member district pays dental premiums based on the consortium estimates of future claims. If the member district's dental claims exceed its premiums, there is no individual supplemental assessment; on the other hand, if the School District's claims are low, it will not receive a refund. Dental coverage is administered through a third party administrator, Dental Care Plus. Participating member districts pay an administrative fee to the fiscal agent to cover the costs associated with the administering of the Consortium. To obtain financial information write to Brown County Educational Service Center at 9231-B Hamer Road, Georgetown, Ohio 45121.

**Eastern Local School District, Brown County**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2015*

**NOTE 16 - SET-ASIDE CALCULATIONS AND FUND RESERVES**

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

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

	<u>Capital Acquisition</u>
Set-aside Reserve Balance as of June 30, 2014	\$ -
Current Year Set-aside Requirement	(228,955)
Current Year Offsets	228,955
Qualifying Disbursements	-
Set-aside Balance as of June 30, 2015	<u>\$ -</u>
Set-aside Reserve Balance as of June 30, 2015	<u>\$ -</u>

The School District had offsets and qualifying disbursements during the year that reduced the set-aside amount below zero in the Capital Acquisition Reserve. The carryover amount in the Capital Acquisition Reserve is limited to the balance of the offsets attributed to bond or tax levy proceeds. The School District is responsible for tracking the amount of the bond proceeds that may be used as an offset in future periods, which was \$7,089,465 at June 30, 2015.

**NOTE 17 - CONTINGENCIES**

**Grants**

The School District received financial assistance from federal and State agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, the effect of any such disallowed claims on the overall financial position of the School District at June 30, 2015, if applicable, cannot be determined at this time.

**Litigation**

The School District is not party to legal proceedings.

**Foundation**

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

**Eastern Local School District, Brown County**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2015*

**NOTE 18 – ACCOUNTABILITY**

At June 30, 2015, the Food Service, and Education Job Funds had fund balance deficits of \$5,606 and \$2,260, respectively which were created by the application of accounting principles generally accepted in the United States of America. The General Fund provides transfers to cover deficit balances; however, this is done when cash is needed rather than when accruals occur.

**NOTE 19 – 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 government funds. The constraints placed on the fund balance for the major governmental funds and all other governmental funds are presented below:

Fund Balances	General	Bond Retirement	Nonmajor Governmental Funds	Total Governmental Funds
<b>Restricted for</b>				
Athletics	\$0	\$0	\$52,920	\$52,920
Classroom Facility and Maintenance	0	0	132,632	132,632
Other Purposes	0	0	120,821	120,821
Capital Projects	0	0	411,432	411,432
Debt Services Payments	0	1,337,335	0	1,337,335
<b>Total Restricted</b>	<b>0</b>	<b>1,337,335</b>	<b>717,805</b>	<b>2,055,140</b>
<b>Committed to</b>				
Retirement Severance Benefits	55,737	0	0	55,737
<b>Assigned to</b>				
Other Purposes	391,006	0	0	391,006
<b>Unassigned (Deficit)</b>				
	2,160,662	0	(7,866)	2,152,796
<b>Total Fund Balances</b>	<b>\$2,607,405</b>	<b>\$1,337,335</b>	<b>\$709,939</b>	<b>\$4,654,679</b>

**NOTE 20 – SPECIAL ITEM**

During fiscal year 2015, the School District returned \$41,690 to the Ohio School Facilities Commission to close out the project.

**NOTE 21 – CHANGES IN ACCOUNTING PRINCIPLES**

For 2015, the District implemented Governmental Accounting Standards Board (GASB) Statement No. 68, “Accounting and Financial Reporting for Pensions-an Amendment of GASB Statement No.27” and GASB Statement No. 71 “Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68.”

Statement No. 68 requires governments providing defined benefit pensions to recognize their unfunded pension benefit obligation as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. The statement also enhances accountability and transparency through revised note disclosures and required supplemental information (RSI).

Statement No. 71 amends paragraph 137 of Statement 68 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability

**Eastern Local School District, Brown County**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2015*

**NOTE 21 – CHANGES IN ACCOUNTING PRINCIPLES** (continued)

The impact of the application of Statement No. 68 and Statement No. 71 had the following effect on beginning net position.

Net position, July 1, 2014-As previously stated	\$39,592,832
School District Share of Beginning Plan Net Pension Liability	(16,593,342)
School District Share of 2014 Employer Contributions	<u>908,929</u>
Net position, July 1, 2014-As restated	<u>\$23,908,419</u>

**Eastern Local School District, Brown County**  
*Required Supplementary Information*  
*Schedule of the School District's Proportionate Share of the Net Pension Liability*  
*School Employees Retirement System of Ohio*  
*Last Two Years*

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	<u>2014</u>	<u>2013</u>
Total plan pension liability	\$ 17,881,827,171	\$ 17,247,161,078
Plan net position	<u>12,820,884,107</u>	<u>11,300,482,029</u>
Net pension liability	5,060,943,064	5,946,679,049
School District's proportion of the net pension liability	0.058972%	0.058972%
School District's proportionate share of the net pension liability	\$ 2,984,539	\$ 3,506,876
School District's covered-employee payroll	\$ 1,802,026	\$ 2,046,012
School District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	165.60%	171.40%
Plan fiduciary net position as a percentage of the total pension liability	71.70%	65.50%

**Eastern Local School District, Brown County**  
*Required Supplementary Information*  
*Schedule of the School District's Proportionate Share of the Net Pension Liability*  
*State Teachers Retirement System of Ohio*  
*Last Two Years*

	<u>2014</u>	<u>2013</u>
Total plan pension liability	\$ 96,167,057,104	\$ 94,366,693,720
Plan net position	<u>71,843,596,331</u>	<u>65,392,746,348</u>
Net pension liability	24,323,460,773	28,973,947,372
School District's proportion of the net pension liability	0.04516632%	0.04516632%
School District's proportionate share of the net pension liability	\$ 10,986,012	\$ 13,086,466
School District's covered-employee payroll	\$ 4,614,892	\$ 4,868,854
School District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	238.10%	268.80%
Plan fiduciary net position as a percentage of the total pension liability	74.70%	69.30%



**Eastern Local School District, Brown County**  
*Required Supplementary Information*  
**Schedule of School District Contributions**  
*School Employees Retirement System of Ohio*  
 Last Ten Years

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Contractually required contribution	\$ 234,780	\$ 237,507	\$ 283,168	\$ 262,713	\$ 248,876	\$ 307,818	\$ 169,279	\$ 180,341	\$ 200,910	\$ 227,785
Contributions in relation to the contractually required contribution	(234,780)	(237,507)	(283,168)	(262,713)	(248,876)	(307,818)	(169,279)	(180,341)	(200,910)	(227,785)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
School District's covered-employee payroll	\$ 1,693,939	\$ 1,802,026	\$ 2,046,012	\$ 1,953,257	\$ 1,979,920	\$ 2,273,397	\$ 1,720,315	\$ 1,836,466	\$ 1,881,180	\$ 2,152,977
Contributions as a percentage of covered employee payroll	-13.86%	-13.18%	-13.84%	-13.45%	-12.57%	-13.54%	-9.84%	-9.82%	-10.68%	-10.58%

**Eastern Local School District, Brown County**  
*Required Supplementary Information*  
**Schedule of School District Contributions**  
*State Teachers Retirement System of Ohio*  
 Last Ten Years

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Contractually required contribution	\$ 640,264	\$ 599,936	\$ 632,951	\$ 642,792	\$ 634,485	\$ 671,012	\$ 676,360	\$ 692,922	\$ 684,335	\$ 741,655
Contributions in relation to the contractually required contribution	(640,264)	(599,936)	(632,951)	(642,792)	(634,485)	(671,012)	(676,360)	(692,922)	(684,335)	(741,655)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
School District covered-employee payroll	\$ 4,573,314	\$ 4,614,892	\$ 4,868,854	\$ 4,944,554	\$ 4,880,654	\$ 5,161,631	\$ 5,202,769	\$ 5,330,169	\$ 5,264,115	\$ 5,705,038
Contributions as a percentage of covered-employee payroll	-14.00%	-13.00%	-13.00%	-13.00%	-13.00%	-13.00%	-13.00%	-13.00%	-13.00%	-13.00%

**Eastern Local School District, Brown County**  
Schedule of Expenditures and Receipts of Federal Awards  
For the Fiscal Year Ended June 30, 2015

Federal Grantor/ Pass Through Grantor/ Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
<b>United States Department of Agriculture</b>						
<i>Passed through the Ohio Department of Education</i>						
<i>Nutrition Cluster:</i>						
School Breakfast Program	3L70	10.553	\$ 69,080	\$ -	\$ 69,080	\$ -
National School Lunch Program	3L60	10.555	265,921	44,095	265,921	44,095
Total United States Department of Agriculture			335,001	44,095	335,001	44,095
<b>United States Department of Education</b>						
<i>Passed through the Ohio Department of Education</i>						
Special Education - Grants to States	3M20	84.027	271,280	-	270,427	-
Title I Grants to Local Educational Agencies	3M00	84.010	329,795	-	330,278	-
Twenty-First Century Community Learning Centers	3Y20	84.287	-	-	8,693	-
Rural and Low Income	3Y80	84.358	23,310	-	23,310	-
Improving Teacher Quality State Grants	3Y60	84.367	91,963	-	91,705	-
Total United States Department of Education			716,348	-	724,413	-
Total Federal Financial Assistance			\$ 1,051,349	\$ 44,095	\$ 1,059,414	\$ 44,095

**Eastern Local School District, Brown County**

Notes to the Schedule of Federal Awards Receipts and Expenditures  
For the Fiscal Year Ended June 30, 2015

**NOTE A – SIGNIFICANT ACCOUNTING POLICIES**

The accompanying Schedule of Federal Awards Receipts and Expenditures (the Schedule) is a summary of the activity of the District's federal award programs. The Schedule has been prepared on the cash basis of accounting.

**NOTE B – FOOD DONATION**

Program regulations do not require the School District to maintain separate inventory records for purchased food and food received from the U.S. Department of Agriculture. This non-monetary assistance (expenditures) is reported in the Schedule at the fair market value of the commodities received.

**NOTE C – NATIONAL SCHOOL LUNCH AND BREAKFAST PROGRAMS**

Federal funds received from the National School Lunch and Breakfast Programs were commingled with state subsidy and local revenue from the sale of meals. It was assumed that federal dollars were expended first.



# Balestra, Harr & Scherer, CPAs, Inc.

Accounting, Auditing and Consulting Services for Federal, State and Local Governments

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## Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by *Government Auditing Standards*

Eastern Local School District  
11479 US Highway 62  
Winchester, Ohio 45697

To the Board of Education:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Eastern Local School District, Brown County, Ohio (the School District), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements and have issued our report thereon dated December 3, 2015 wherein we noted the District implemented Governmental Accounting Standard No 68 and No. 71.

### Internal Control over Financial Reporting

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

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

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

### **Compliance and Other Matters**

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

### **Purpose of this Report**

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

*Balestra, Harr & Scherer, CPAs*

Balestra, Harr & Scherer, CPAs, Inc.

Piketon, Ohio

December 3, 2015



# Balestra, Harr & Scherer, CPAs, Inc.

Accounting, Auditing and Consulting Services for Federal, State and Local Governments

[www.bhscpas.com](http://www.bhscpas.com)

## Report on Compliance with Requirements Applicable to the Major Federal Program and on Internal Control Over Compliance Required by OMB Circular A-133

Eastern Local School District  
11479 US Highway 62  
Winchester, Ohio 45697

To the Board of Education:

### Report on Compliance for the Major Federal Program

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

### Management's Responsibility

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

### Auditor's Responsibility

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

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

### Opinion on the Major Federal Program

In our opinion, Eastern Local School District complied, in all material respects with the compliance requirements referred to above that could directly and materially affect its major federal program for the year ended June 30, 2015.

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

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

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

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

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

*Balestra, Harr & Scherer, CPAs*

Balestra, Harr & Scherer, CPAs, Inc.  
Piketon, Ohio  
December 3, 2015



**Eastern Local School District, Brown County**

Schedule of Findings  
*OMB Circular A-133 Section §.505*  
 June 30, 2015

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

(d)(1)(i)	Type of Financial Statement Opinion	Unmodified
(d)(1)(ii)	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
(d)(1)(iv)	Were there any material internal control weaknesses reported for major federal programs?	No
(d)(1)(iv)	Were there any significant deficiencies in internal control reported for major federal programs?	No
(d)(1)(v)	Type of Major Program's Compliance Opinion	Unmodified
(d)(1)(vi)	Are there any reportable findings under §.510(a)?	No
(d)(1)(vii)	Major Programs (list):	<b>Nutrition Cluster:</b> School Breakfast Program, CFDA #10.553 and National School Lunch Program, CFDA #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

**Eastern Local School District, Brown County**

Schedule of Findings  
*OMB Circular A-133 Section §.505*  
June 30, 2015

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

**None noted**

**3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS**

**None noted**



# Dave Yost • Auditor of State

**EASTERN LOCAL SCHOOL DISTRICT**

**BROWN COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
MARCH 17, 2016**