



OHIO AUDITOR OF STATE
KEITH FABER



**EAST MUSKINGUM LOCAL SCHOOL DISTRICT
MUSKINGUM COUNTY
JUNE 30, 2018**

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**EAST MUSKINGUM LOCAL SCHOOL
DISTRICT MUSKINGUM COUNTY
JUNE 30, 2018**

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OHIO AUDITOR OF STATE KEITH FABER



INDEPENDENT AUDITOR'S REPORT

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

To the Board of Education:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the East Muskingum Local School District, Muskingum County, Ohio (the School District), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the East Muskingum Local School District, Muskingum County, Ohio, as of June 30, 2018, and the respective changes in financial position and, where applicable, cash flows thereof and the budgetary comparison for the General Fund thereof for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 3 to the financial statements, during fiscal year 2018, the School District adopted new accounting guidance in Governmental Accounting Standards Board (GASB) Statement No. 85, *Omnibus 2017*, Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pension*. 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 and other post-employment benefit liabilities and pension and other post-employment benefit 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 Expenditures of Federal Awards (the Schedule) presents additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards and is not a required part of the financial statements.

The Schedule is management's responsibility, and derives from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. We subjected this information to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling this information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves in accordance with auditing standards generally accepted in the United States of America. In our opinion, this information 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 February 13, 2019, on our consideration of the School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School District's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Keith Faber". The signature is written in a cursive style with a large, stylized "K" and "F".

Keith Faber
Auditor of State
Columbus, Ohio

February 13, 2019

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East Muskingum Local School District, Ohio

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2018
Unaudited*

The discussion and analysis of the East Muskingum Local School District's (the "School District") financial performance provides an overall review of the School District's financial activities for the fiscal year-ended June 30, 2018. The intent of this discussion and analysis is to look at the School District's financial performance as a whole. Readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the School District's financial performance.

Financial Highlights

Key financial highlights for the fiscal year 2018 are as follows:

- In total, net position of governmental activities increased \$10,426,708.
- Capital assets decreased \$994,106 primarily due to current year depreciation expense which was offset by capital asset acquisitions. In addition, deferred outflows of resources increased by \$1,194,562 due to pension and OPEB related items.
- Long-term liabilities reflect a significant decrease as a result of pension and OPEB related items.
- General revenues accounted for \$18,761,996 in revenue or 80 percent of all revenues. Program specific revenues in the form of charges for services, grants, contributions, and interest accounted for \$4,736,565 or 20 percent of total revenues of \$23,498,561.
- The School District had \$13,071,853 in expenses related to governmental activities; only \$4,736,565 of these expenses were offset by program specific charges for services, grants, contributions, and interest. General revenues (primarily taxes and intergovernmental revenues) in the amount of \$18,761,996 were adequate to provide for these programs.

Using this Basic Financial Statements Report

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

The *Statement of Net Position* and *Statement of Activities* provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the School District's most significant funds with all other non-major funds presented in total in one column and also provide information in more detail than the government-wide statements. In the case of the School District, the General Fund and the Permanent Improvement Levy Capital Projects Fund are the only major funds for fiscal year 2018.

East Muskingum Local School District, Ohio

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2018

Unaudited

Reporting the School District as a Whole

Statement of Net Position and Statement of Activities

While these documents contain the large number of funds used by the School District to provide programs and activities, the view of the School District as a whole looks at all financial transactions and asks the question, "How did we do financially during the 2017-2018 fiscal year?"

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

Reporting the School District's Most Significant Funds

Fund Financial Statements

The analysis of the School District's major funds begins on page 13. Fund financial reports provide detailed information about the School District's major funds. The School District uses many funds to account for a multiple of financial transactions. However, these fund financial statements focus on the School District's most significant funds.

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

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

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

East Muskingum Local School District, Ohio

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2018

Unaudited

Recall that the Statement of Net Position provides the perspective of the School District as a whole. Table 1 provides a summary of the School District's net position for 2018 compared to 2017.

Table 1 - Net Position

	Governmental Activities		
	2018	2017	Change
Assets			
Current and Other Assets	\$16,116,161	\$15,900,891	\$215,270
Capital Assets	19,454,091	20,448,197	(994,106)
Total Assets	35,570,252	36,349,088	(778,836)
Deferred Outflows of Resources			
Pension	6,623,684	5,612,413	1,011,271
OPEB	224,303	41,012	183,291
Total Deferred Outflows of Resources	6,847,987	5,653,425	1,194,562
Liabilities			
Current and Other Liabilities	2,423,139	2,523,334	(100,195)
Long-Term Liabilities:			
Due Within One Year	546,953	540,931	6,022
Due in More Than One Year			
Net Pension Liability	22,509,544	31,511,374	(9,001,830)
Net OPEB Liability	4,968,096	6,340,982	(1,372,886)
Other Amounts	3,840,650	4,034,091	(193,441)
Total Liabilities	34,288,382	44,950,712	(10,662,330)
Deferred Inflows of Resources			
Property Taxes not Levied to Finance Current			
Year Operations	4,901,324	5,752,887	(851,563)
Pension	2,004,164	1,180,499	823,665
OPEB	679,246	0	679,246
Total Deferred Inflows of Resources	7,584,734	6,933,386	651,348
Net Position			
Net Investment in Capital Assets	16,419,351	16,930,141	(510,790)
Restricted	2,820,998	2,426,292	394,706
Unrestricted (Deficit)	(18,695,226)	(29,238,018)	10,542,792
Total Net Position (Deficit)	\$545,123	(\$9,881,585)	\$10,426,708

The net pension liability (NPL) is the largest single liability reported by the School District at June 30, 2018 and is reported pursuant to GASB Statement 68, "Accounting and Financial Reporting for Pensions - an Amendment of GASB Statement 27". For fiscal year 2018, the School District adopted GASB Statement 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions", which significantly revises accounting for costs and liabilities related to other postemployment benefits (OPEB). 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 OPEB, the net pension liability, and the net OPEB liability to the reported net position and subtracting deferred outflows related to pension and OPEB.

Governmental Accounting Standards Board standards are national and apply to all government financial reports prepared in accordance with generally accepted accounting principles. Prior accounting for pensions (GASB 27) and postemployment benefits (GASB 45) focused on a funding approach. This approach limited pension and OPEB costs to contributions annually required by law, which may or may not be sufficient to fully fund each plan's *net pension liability* or *net OPEB liability*.

East Muskingum Local School District, Ohio

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2018
Unaudited*

GASB 68 and GASB 75 take an earnings approach to pension and OPEB accounting; however, the nature of Ohio's statewide pension/OPEB plans and state law governing those systems requires additional explanation in order to properly understand the information presented in these statements.

GASB 68 and GASB 75 require the net pension liability and the net OPEB liability to equal the School District's proportionate share of each plan's collective:

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

GASB notes that pension and OPEB 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 and other postemployment benefits. GASB noted that the unfunded portion of this 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 these liabilities. 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 Ohio Revised Code permits, but does not require the retirement systems to provide healthcare to eligible benefit recipients. The retirement systems may allocate a portion of the employer contributions to provide for these OPEB benefits.

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 retirement system. In Ohio, there is no legal means to enforce the unfunded liability of the pension/OPEB plan *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 retirement system is responsible for the administration of the pension and OPEB plans.

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 or the net OPEB liability. As explained above, changes in benefits, contribution rates, and return on investments affect the balance of these liabilities, 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 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 and the net OPEB liability are satisfied, these liabilities are separately identified within the long-term liability section of the statement of net position.

In accordance with GASB 68 and GASB 75, the School District's statements prepared on an accrual basis of accounting include an annual pension expense and an annual OPEB expense for their proportionate share of each plan's *change* in net pension liability and net OPEB liability, respectively, not accounted for as deferred inflows/outflows.

As a result of implementing GASB 75, the School District is reporting a net OPEB liability and deferred inflows/outflows of resources related to OPEB on the accrual basis of accounting. This implementation also had the effect of restating net position at June 30, 2017, from (\$3,581,615) to (\$9,881,585).

East Muskingum Local School District, Ohio

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2018

Unaudited

Total assets decreased by \$778,836. Current and other assets reflect an overall increase in the amount of \$215,270. Cash and cash equivalents decreased by \$145,660 from the prior fiscal year. The School District strives to maintain a healthy working balance in as many areas as possible but for fiscal year 2018 fixed revenue streams did not keep pace with increases in expenses. However, an increase in property taxes receivable of \$318,546 offset this decrease and is attributable to an increase in property tax values throughout the boundaries of the School District. Capital assets decreased \$994,106 due to current year depreciation expense which exceeded current year capital asset additions.

Deferred outflows of resources increased in the amount of \$1,194,562. This significant increase was primarily due to an increase in the changes of assumptions related to the School District's proportionate share of the net pension liability. In addition, deferred outflows of resources increased as a result of the differences between expected and actual experience relating to the OPEB liability.

Current and other liabilities decreased by \$100,195 as amounts due and payable for compensated absences and longevity have decreased from the prior year. In addition, intergovernmental payables decreased due to the School District's accruals for foundation and surcharge obligations declining from the prior fiscal year. Long-term liabilities, excluding the pension/OPEB liability, decreased \$187,419 primarily due to the retirement of bonds, long-term notes, and capital leases.

Deferred inflows related to property taxes decreased in the amount of \$851,563. The School District receives property taxes from two counties and the county with the largest tax base changed their property tax collection dates. This resulted in an increase in the amount available as an advance (revenue) which proportionately decreased the deferred amount. Increases in pension/OPEB amounts offset this decrease for an overall increase in deferred inflows of resources in the amount of \$651,348.

By comparing assets and deferred outflows of resources and liabilities and deferred inflows of resources, one can see the overall position of the School District as improved as evidenced by the increase in net position in the amount of \$10,426,708. The largest change is in unrestricted net position, an increase of \$10,542,792, due primarily to the change in pension and OPEB related items as discussed elsewhere. Net investment in capital assets decreased by \$510,790 as a combined result of retiring capital related debt and recognizing current year depreciation as discussed above.

Table 2 shows the changes in net position for the fiscal year-ended June 30, 2018 and comparisons to fiscal year 2017:

East Muskingum Local School District, Ohio

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2018

Unaudited

Table 2
Changes in Net Position

	Governmental Activities		
	2018	2017	Change
Revenues			
Program Revenues			
Charges for Services	\$2,352,529	\$2,247,744	\$104,785
Operating Grants, Contributions, and Interest	2,327,843	2,430,490	(102,647)
Capital Grants and Contributions	56,193	75,645	(19,452)
Total Program Revenues	<u>4,736,565</u>	<u>4,753,879</u>	<u>(17,314)</u>
General Revenues			
Property Taxes	9,258,619	6,839,701	2,418,918
Grants and Entitlements	9,387,491	9,309,613	77,878
Investment Earnings	17,523	46,399	(28,876)
Miscellaneous	98,363	153,435	(55,072)
Total General Revenues	<u>18,761,996</u>	<u>16,349,148</u>	<u>2,412,848</u>
Total Revenues	<u>23,498,561</u>	<u>21,103,027</u>	<u>2,395,534</u>
Program Expenses			
Instruction			
Regular	3,733,720	10,222,600	(6,488,880)
Special	2,505,510	3,337,277	(831,767)
Vocational	43,285	222,492	(179,207)
Student Intervention Services	466,675	616,687	(150,012)
Support Services			
Pupils	215,962	534,520	(318,558)
Instructional Staff	220,953	493,787	(272,834)
Board of Education	40,698	34,185	6,513
Administration	556,807	2,242,163	(1,685,356)
Fiscal	498,473	509,428	(10,955)
Operation and Maintenance of Plant	1,989,488	2,125,039	(135,551)
Pupil Transportation	1,088,133	1,509,695	(421,562)
Central	165,139	262,818	(97,679)
Food Service Operations	1,028,285	1,201,325	(173,040)
Extracurricular Activities	415,524	479,650	(64,126)
Interest	103,201	117,444	(14,243)
Total Expenses	<u>13,071,853</u>	<u>23,909,110</u>	<u>(10,837,257)</u>
<i>Change in Net Position</i>	10,426,708	(2,806,083)	13,232,791
Net Position (Deficit) Beginning of Year	<u>(9,881,585)</u>	N/A	
Net Position (Deficit) End of Year	<u>\$545,123</u>	<u>(\$9,881,585)</u>	<u>\$10,426,708</u>

The information necessary to restate the 2017 beginning balances and the 2017 OPEB expense amounts for the effects of the initial implementation of GASB 75 is not available. Therefore, 2017 functional expenses still include OPEB expense of \$41,012 computed under GASB 45. GASB 45 required recognizing pension expense equal to the contractually required contributions to the plan. Under GASB 75, OPEB expense represents additional amounts earned, adjusted by deferred inflows/outflows. The contractually required contribution is no longer a component of OPEB expense. Under GASB 75, the 2018 statements report negative OPEB expense of \$824,845. Consequently, in order to compare 2018 total program expenses to 2017, the following adjustments are needed:

East Muskingum Local School District, Ohio

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2018

Unaudited

Total 2018 program expenses under GASB 75	\$13,071,853
Negative OPEB expense under GASB 75	824,845
2018 contractually required contribution	<u>52,086</u>
Adjusted 2018 program expenses	13,948,784
Total 2017 program expenses under GASB 45	<u>23,909,110</u>
Decrease in program expenses not related to OPEB	<u><u>(\$9,960,326)</u></u>

The largest component of the decrease in program expenses results from changes in assumptions and benefit terms related to pensions. STRS adopted certain assumption changes, including a reduction in their discount rate, and also voted to suspend cost of living adjustments (COLA). SERS decreased their COLA assumption. (See Note 11) As a result of these changes, pension expense decreased from \$2,150,530 in fiscal year 2017 to a negative pension expense of \$7,651,587 for fiscal year 2018. The allocation of the fiscal year 2018 negative pension expense to program expenses is as follows:

Program Expenses	2018 Program Expenses Related to Negative Pension Expense
Instruction:	
Regular	\$4,883,521
Vocational	740,008
Adult/Continuing	148,002
Support Services:	
Pupils	222,002
Instructional Staff	153,766
Administration	1,235,769
Fiscal	16,569
Operation and Maintenance of Plant	66,931
Pupil Transportation	71,954
Operation of Non-Instructional Services	38,919
Extracurricular Activities	<u>74,146</u>
 Total Expenses	 <u><u>\$7,651,587</u></u>

The School District's net position increased \$10,426,708. As indicated in Table 2, the largest revenue fluctuation is evident in property taxes, an increase of \$2,418,918. As explained earlier, the portion of property taxes receivable recognized as revenue increased due to the earlier collection of taxes from the largest tax base with the School District's boundaries. This revenue, referred to as the amount available as an advance, was available to the School District as of June 30, 2018 and can fluctuate according to the counties' collection dates.

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

East Muskingum Local School District, Ohio

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2018

Unaudited

As an example, a homeowner with a home valued at \$100,000 and taxed at 1.0 mill would pay \$35.00 annually in taxes. If three years later the home were reappraised and increased to \$200,000 (and this inflationary increase in value is comparable to other property owners) the effective tax rate would become .5 mills and the owner would still pay \$35.00. Property taxes made up approximately 39 percent of revenues for governmental activities for the School District in fiscal year 2018. This revenue source is essential to the School District and supported by the voters as evidenced by the renewal of the emergency operating levy in the May 2018 election. The remaining 61 percent of revenues are received through outside sources, such as restricted and unrestricted grants in aid and tuition received from students.

Expenses decreased by approximately 45 percent or \$10,837,257 which is primarily due to pension/OPEB related items as discussed previously.

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

Table 3

	Total Cost of Services 2018	Net Cost of Services 2018	Total Cost of Services 2017	Net Cost of Services 2017
Instruction:				
Regular	\$3,733,720	\$2,014,642	\$10,222,600	\$8,465,963
Special	2,505,510	822,036	3,337,277	1,623,978
Vocational	43,285	(19,523)	222,492	174,795
Student Intervention Services	466,675	466,675	616,687	616,687
Support Services:				
Pupils	215,962	215,962	534,520	534,520
Instructional Staff	220,953	220,953	493,787	488,726
Board of Education	40,698	40,698	34,185	34,185
Administration	556,807	556,807	2,242,163	2,242,163
Fiscal	498,473	496,065	509,428	507,351
Operation and Maintenance of Plant	1,989,488	1,901,924	2,125,039	2,016,157
Pupil Transportation	1,088,133	1,068,589	1,509,695	1,484,116
Central	165,139	154,339	262,818	252,018
Food Service Operations	1,028,285	70,236	1,201,325	256,172
Extracurricular Activities	415,524	222,684	479,650	340,956
Interest	103,201	103,201	117,444	117,444
Total Expenses	<u>\$13,071,853</u>	<u>\$8,335,288</u>	<u>\$23,909,110</u>	<u>\$19,155,231</u>

The dependence upon tax revenues and State subsidies for governmental activities is apparent, with approximately 64 percent of the School District's activities being supported through taxes and unrestricted grants and entitlements.

Instructional programs have remained relatively consistent at between 52 and 60 percent of total governmental program expenses. Of the instructional expenses, approximately 55 percent is for regular instruction, 37 percent for special instruction, 8 percent for vocational and intervention services instructions.

East Muskingum Local School District, Ohio

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2018

Unaudited

The dependence upon tax revenues and State subsidies for governmental activities is apparent, with approximately 64 percent of the School District's activities being supported through taxes and unrestricted grants and entitlements.

The School District Funds

The School District's governmental funds are accounted for using the modified accrual basis of accounting. The General Fund is the primary operating fund of the School District. All governmental funds had total revenues of \$23,346,500, expenditures and other financing uses of \$22,347,678, and a combined net increase in fund balances of \$998,822. This net increase represents fifteen percent of the prior year combined fund balance.

The largest change was in the General Fund, which reflects an increase in fund balance in the amount of \$620,468. This increase is larger than all other funds combined and is largely the result of increased property tax revenue. Offsetting this increase in property tax revenue was an overall increase in expenditures with the largest concentration of change in regular instruction. During fiscal year 2018, the Board of Education approved a two percent increase in salaries and a twelve percent increase in insurance costs. Capital outlay decreased in the General Fund in the amount of \$184,179 due to a prior year lease obligation that was for the purchase of copiers. At the end of fiscal year 2018, unassigned fund balance in the General Fund was \$3,845,219, while total fund balance was \$4,949,063. As a measure of the General Fund's liquidity, it may be useful to compare both the unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 20 percent of total General Fund expenditures, while total fund balance represents 26 percent of that same amount.

General Fund Budgeting Highlights

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

For the General Fund, budget basis revenues were \$499,091 below final estimates of \$19,584,494. Of this difference, the majority was due to optimistic estimates for property taxes revenue.

Budget basis expenditures were \$222,231 lower than final estimates of \$19,371,333. The largest variance in expenditures was in regular instruction. The School District had anticipated additional expenditures in this program that did not occur.

The School District's ending General Fund budgetary basis balance was \$276,860 lower than the final estimate.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2018, the School District had \$19,454,091 invested in land, land improvements, buildings and improvements, furniture, fixtures, and equipment, and vehicles, net of depreciation. See Note 8 for more detailed information of the School District's capital assets.

East Muskingum Local School District, Ohio

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2018

Unaudited

Debt

At June 30, 2018, the School District had \$2,700,000 in general obligation bonds outstanding, with \$410,000 due within one year, and \$124,131 in Energy Conservation Notes, with \$39,570 due within one year.

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

Economic Factors

Based on the most recent five year forecast adopted by the Board of Education, the School District is projecting deficit spending in the amount of \$602,039, beginning in fiscal year 2019. However, projected ending cash balances are forecasted to be positive throughout the next four years of the latest forecast. The Board of Education and Administration of the School District must maintain careful financial planning and prudent fiscal management in order to maintain the financial stability of the School District.

Contacting the School District's Financial Management

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

East Muskingum Local School District, Ohio

Statement of Net Position

June 30, 2018

	Governmental Activities
Assets	
Equity in Pooled Cash and Cash Equivalents	\$6,724,421
Cash and Cash Equivalents in Segregated Accounts	8,504
Accounts Receivable	48,436
Accrued Interest Receivable	10,682
Intergovernmental Receivable	274,395
Inventory Held for Resale	2,653
Materials and Supplies Inventory	283,953
Prepaid Items	75,648
Property Taxes Receivable	8,687,469
Nondepreciable Capital Assets	244,989
Depreciable Capital Assets, Net	19,209,102
Total Assets	<u>35,570,252</u>
Deferred Outflows of Resources	
Pension	6,623,684
OPEB	224,303
Total Deferred Outflows of Resources	<u>6,847,987</u>
Liabilities	
Accrued Wages and Benefits Payable	1,570,986
Accounts Payable	126,769
Intergovernmental Payable	357,704
Matured Compensated Absences Payable	34,698
Matured Longevity Benefits Payable	31,247
Accrued Interest Payable	10,916
Claims Payable	290,819
Long-Term Liabilities:	
Due Within One Year	546,953
Due In More Than One Year:	
Net Pension Liability (See Note 11)	22,509,544
Net OPEB Liability (See Note 12)	4,968,096
Other Amounts Due In More Than One Year	3,840,650
Total Liabilities	<u>34,288,382</u>
Deferred Inflows of Resources	
Property Taxes	4,901,324
Pension	2,004,164
OPEB	679,246
Total Deferred Inflows of Resources	<u>7,584,734</u>
Net Position	
Net Investment in Capital Assets	16,419,351
Restricted for:	
Food Service Operations	213,420
State Grant Expenditures	221
Classroom Facilities Maintenance	198,495
Capital Projects	1,712,998
Debt Service	504,170
Athletic and Music	119,485
Unclaimed Monies	217
Federal Programs	71,992
Unrestricted (Deficit)	(18,695,226)
Total Net Position	<u>\$545,123</u>

See accompanying notes to the basic financial statements

East Muskingum Local School District, Ohio
Statement of Activities
For the Fiscal Year Ended June 30, 2018

	Program Revenues				Net (Expense) Revenue and Change in Net Position
	Expenses	Charges for Services	Operating Grants, Contributions, and Interest	Capital Grants and Contributions	Governmental Activities
Governmental Activities					
Instruction:					
Regular	\$3,733,720	\$1,628,982	\$79,701	\$10,395	(\$2,014,642)
Special	2,505,510	50,970	1,632,504	0	(822,036)
Vocational	43,285	0	62,808	0	19,523
Student Intervention Services	466,675	0	0	0	(466,675)
Support Services:					
Pupils	215,962	0	0	0	(215,962)
Instructional Staff	220,953	0	0	0	(220,953)
Board of Education	40,698	0	0	0	(40,698)
Administration	556,807	0	0	0	(556,807)
Fiscal	498,473	0	755	1,653	(496,065)
Operation and Maintenance of Plant	1,989,488	9,000	53,963	24,601	(1,901,924)
Pupil Transportation	1,088,133	0	0	19,544	(1,068,589)
Central	165,139	0	10,800	0	(154,339)
Operation of Non-Instructional Services:					
Food Service Operations	1,028,285	470,737	487,312	0	(70,236)
Extracurricular Activities	415,524	192,840	0	0	(222,684)
Interest	103,201	0	0	0	(103,201)
Total Governmental Activities	<u>\$13,071,853</u>	<u>\$2,352,529</u>	<u>\$2,327,843</u>	<u>\$56,193</u>	<u>(8,335,288)</u>
General Revenues					
Property Taxes Levied for:					
					7,782,574
					781,770
					559,661
					134,614
Grants and Entitlements not					
					9,387,491
Investment Earnings					
					17,523
Miscellaneous					
					98,363
Total General Revenues					
					<u>18,761,996</u>
Change in Net Position					
					10,426,708
Net Position (Deficit) Beginning of Year - Restated (See Note 3)					
					<u>(9,881,585)</u>
Net Position End of Year					
					<u>\$545,123</u>

See accompanying notes to the basic financial statements

East Muskingum Local School District, Ohio

Balance Sheet

Governmental Funds

June 30, 2018

	General	Permanent Improvement Levy	Other Governmental Funds	Total Governmental Funds
Assets				
Equity in Pooled Cash and Cash Equivalents	\$3,837,467	\$1,380,386	\$1,114,288	\$6,332,141
Cash and Cash Equivalents in Segregated Accounts	0	0	8,504	8,504
Accounts Receivable	14,585	24,972	8,879	48,436
Intergovernmental Receivable	39,925	0	234,470	274,395
Accrued Interest Receivable	10,682	0	0	10,682
Inventory Held for Resale	0	0	2,653	2,653
Materials and Supplies Inventory	281,224	0	2,729	283,953
Prepaid Items	62,038	10,862	2,748	75,648
Interfund Receivable	65,191	0	0	65,191
Restricted Assets:				
Equity in Pooled Cash and Cash Equivalents	217	0	0	217
Property Taxes Receivable	7,302,797	727,773	656,899	8,687,469
Total Assets	<u>\$11,614,126</u>	<u>\$2,143,993</u>	<u>\$2,031,170</u>	<u>\$15,789,289</u>
Liabilities				
Matured Compensated Absences Payable	\$34,698	\$0	\$0	\$34,698
Matured Longevity Benefits Payable	31,247	0	0	31,247
Accounts Payable	91,233	18,561	16,975	126,769
Accrued Wages and Benefits Payable	1,438,021	0	132,965	1,570,986
Interfund Payable	0	0	65,191	65,191
Intergovernmental Payable	327,083	0	30,621	357,704
Total Liabilities	<u>1,922,282</u>	<u>18,561</u>	<u>245,752</u>	<u>2,186,595</u>
Deferred Inflows of Resources				
Property Taxes	4,118,283	412,434	370,607	4,901,324
Unavailable Revenue	624,498	55,544	187,473	867,515
Total Deferred Inflows of Resources	<u>4,742,781</u>	<u>467,978</u>	<u>558,080</u>	<u>5,768,839</u>
Fund Balances				
Nonspendable:				
Inventories	281,224	0	2,729	283,953
Prepaid Items	62,038	10,862	2,748	75,648
Unclaimed Monies	217	0	0	217
Restricted for:				
Food Service Operations	0	0	259,190	259,190
State Grant Expenditures	0	0	221	221
Classroom Facilities Maintenance	0	0	187,764	187,764
Capital Projects	0	1,646,592	0	1,646,592
Debt Service	0	0	467,662	467,662
Athletic and Music	0	0	118,043	118,043
Committed to:				
Unpaid Obligations	2,235	0	0	2,235
Assigned to:				
Purchases on Order	112,278	0	0	112,278
Capital Projects	0	0	250,000	250,000
Subsequent Year's Appropriation	602,039	0	0	602,039
Other Purposes	43,813	0	0	43,813
Unassigned (Deficit)	3,845,219	0	(61,019)	3,784,200
Total Fund Balances	<u>4,949,063</u>	<u>1,657,454</u>	<u>1,227,338</u>	<u>7,833,855</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balance:	<u>\$11,614,126</u>	<u>\$2,143,993</u>	<u>\$2,031,170</u>	<u>\$15,789,289</u>

See accompanying notes to the basic financial statement:

East Muskingum Local School District, Ohio
*Reconciliation of Total Governmental Fund Balances
to Net Position of Governmental Activities
June 30, 2018*

Total Governmental Fund Balances \$7,833,855

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. 19,454,091

Other long-term assets are not available to pay for current-period expenditures and, therefore, are reported as deferred inflows of resources in the funds:

Grants	121,728	
Property Taxes	721,963	
Interest	9,843	
Charges for Services	5,708	
Tuition and Fees	6,391	
Miscellaneous Revenue	1,882	
Total	867,515	867,515

An internal service fund is used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities on the statement of net position. 101,244

In the statement of activities, interest is accrued on outstanding general obligation bonds, whereas in governmental funds, an interest expenditure is reported when due. (10,916)

Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds:

General Obligation Serial/Term Bonds	(2,700,000)	
Bond Premium	(81,684)	
Energy Conservation Loan	(124,131)	
Capital Leases	(128,925)	
Compensated Absences	(546,666)	
Longevity Benefits Payable	(806,197)	
Total	(4,387,603)	(4,387,603)

The net pension/OPEB liability is not due and payable in the current period and therefore the liability and related deferred inflows/outflows are not reported in governmental funds:

Deferred Outflows - Pension	6,623,684	
Deferred Inflows - Pension	(2,004,164)	
Net Pension Liability	(22,509,544)	
Deferred Outflows - OPEB	224,303	
Deferred Inflows - OPEB	(679,246)	
Net OPEB Liability	(4,968,096)	
Total	(23,313,063)	(23,313,063)

Net Position of Governmental Activities \$545,123

See accompanying notes to the basic financial statements

East Muskingum Local School District, Ohio
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2018

	General	Permanent Improvement Levy	Other Governmental Funds	Total Governmental Funds
Revenues				
Property Taxes	\$7,640,380	\$770,114	\$680,388	\$9,090,882
Intergovernmental	10,337,069	56,193	1,376,760	11,770,022
Interest	17,185	0	1,277	18,462
Tuition and Fees	1,683,666	0	0	1,683,666
Extracurricular Activities	0	0	192,840	192,840
Rent	9,000	0	0	9,000
Charges for Services	0	0	467,929	467,929
Contributions and Donations	7,751	0	0	7,751
Miscellaneous	105,948	0	0	105,948
Total Revenues	19,800,999	826,307	2,719,194	23,346,500
Expenditures				
Current:				
Instruction:				
Regular	8,949,427	88,483	81,284	9,119,194
Special	2,492,818	0	708,916	3,201,734
Vocational	218,199	0	0	218,199
Student Intervention Services	466,675	0	0	466,675
Support Services:				
Pupils	468,021	0	0	468,021
Instructional Staff	368,343	0	0	368,343
Board of Education	40,698	0	0	40,698
Administration	2,020,977	0	0	2,020,977
Fiscal	458,855	14,067	13,138	486,060
Operation and Maintenance of Plant	1,632,422	209,398	179,064	2,020,884
Pupil Transportation	1,115,001	166,354	0	1,281,355
Central	154,339	0	10,800	165,139
Operation of Non-Instructional Services:				
Food Service Operations	0	0	972,196	972,196
Extracurricular Activities	357,920	0	171,778	529,698
Debt Service:				
Principal Retirement	36,836	0	432,866	469,702
Interest and Fiscal Charges	0	0	118,803	118,803
Total Expenditures	18,780,531	478,302	2,688,845	21,947,678
Excess of Revenues Over Expenditures	1,020,468	348,005	30,349	1,398,822
Other Financing Use				
Transfers Out	(400,000)	0	0	(400,000)
Net Change in Fund Balances	620,468	348,005	30,349	998,822
Fund Balances Beginning of Year	4,328,595	1,309,449	1,196,989	6,835,033
Fund Balances End of Year	<u>\$4,949,063</u>	<u>\$1,657,454</u>	<u>\$1,227,338</u>	<u>\$7,833,855</u>

See accompanying notes to the basic financial statements

East Muskingum Local School District, Ohio
Reconciliation of the Changes in Fund Balances of Governmental Funds to the Statement of Activities
For the Fiscal Year Ended June 30, 2018

Net Change in Fund Balances - Total Governmental Funds \$998,822

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlay in the current period:

Capital Asset Additions - Capital Outlay	193,438	
Current Year Depreciation	(1,187,544)	
Total	(994,106)	(994,106)

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

Property Taxes	167,737	
Intergovernmental	(7,523)	
Interest	338	
Tuition and Fees	(3,714)	
Charges for Services	2,808	
Miscellaneous	(15,462)	
Total	144,184	144,184

Repayments of principal are expenditures in the governmental funds, but the repayments reduce long-term liabilities in the statement of net position:

General Obligation Bonds	395,000	
Energy Conservation Notes	37,866	
Capital Leases	36,836	
Total	469,702	469,702

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds:

Accrued Interest	1,988	
Amortization of Bond Premium	13,614	
Total	15,602	15,602

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds:

Compensated Absences	(120,990)	
Longevity Benefits Payable	(174,907)	
Total	(295,897)	(295,897)

Contractually required contributions are reported as expenditures in governmental funds; however, the statement of net position reports these amounts as deferred outflows:

Pension	1,537,849	
OPEB	52,086	
Total	1,589,935	1,589,935

Except for amounts reported as deferred inflows/outflows, changes in the net pension/OPEB liability are reported as pension/OPEB expense in the statement of activities.

Pension	7,651,587	
OPEB	824,845	
Total	8,476,432	8,476,432

The internal service fund used by management to charge the costs of insurance to individual funds is not reported in the district-wide statement of activities. The net change in net position of the internal service fund is reported with governmental activities.

22,034

Change in Net Position of Governmental Activities \$10,426,708

See accompanying notes to the basic financial statements

East Muskingum Local School District, Ohio
Statement of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP Basis) and Actual
General Fund
For the Fiscal Year Ended June 30, 2018

	Budgeted Amounts		Actual	Variance Positive (Negative)
	Original	Final		
Revenues				
Property Taxes	\$6,975,914	\$7,050,914	\$6,798,545	(\$252,369)
Intergovernmental	10,097,540	10,422,540	10,333,099	(89,441)
Interest	80,000	80,000	105,706	25,706
Tuition and Fees	1,828,940	1,828,940	1,704,383	(124,557)
Rentals	9,000	9,000	9,000	0
Contributions and Donations	7,751	7,751	7,751	0
Miscellaneous	185,349	185,349	126,919	(58,430)
Total Revenues	19,184,494	19,584,494	19,085,403	(499,091)
Expenditures				
Current:				
Instruction:				
Regular	9,215,267	9,231,133	9,056,227	174,906
Special	2,383,361	2,383,361	2,456,183	(72,822)
Vocational	225,906	225,906	227,166	(1,260)
Student Intervention Services	517,849	517,849	511,518	6,331
Support Services:				
Pupils	479,258	479,257	467,975	11,282
Instructional Staff	408,538	408,537	368,775	39,762
Board of Education	37,350	37,350	41,228	(3,878)
Administration	2,065,605	2,064,698	2,070,235	(5,537)
Fiscal	460,964	460,964	463,529	(2,565)
Operation and Maintenance of Plant	1,680,049	1,680,049	1,692,097	(12,048)
Pupil Transportation	1,271,193	1,271,193	1,254,667	16,526
Central	146,291	146,291	154,954	(8,663)
Extracurricular Activities	427,909	427,909	347,712	80,197
Debt Service:				
Principal Retirement	36,836	36,836	36,836	0
Total Expenditures	19,356,376	19,371,333	19,149,102	222,231
Excess of Revenues Over (Under) Expenditures	(171,882)	213,161	(63,699)	(276,860)
Other Financing Use				
Transfers Out	0	(400,000)	(400,000)	0
Net Change in Fund Balance	(171,882)	(186,839)	(463,699)	(276,860)
Fund Balance Beginning of Year	4,133,265	4,133,265	4,133,265	0
Prior Year Encumbrances Appropriated	134,557	134,557	134,557	0
Fund Balance End of Year	\$4,095,940	\$4,080,983	\$3,804,123	(\$276,860)

See accompanying notes to the basic financial statements

East Muskingum Local School District, Ohio

*Statement of Fund Net Position
Self-Insurance Internal Service Fund
June 30, 2018*

	<u>Medical-Dental Insurance</u>
Current Assets	
Equity in Pooled Cash and Cash Equivalents	\$392,063
Current Liabilities	
Claims Payable	<u>290,819</u>
Net Position	
Unrestricted	<u><u>\$101,244</u></u>

See accompanying notes to the basic financial statements

East Muskingum Local School District, Ohio
Statement of Revenues, Expenses, and Changes in Fund Net Position
Self-Insurance Internal Service Fund
For the Fiscal Year Ended June 30, 2018

	<u>Medical-Dental Insurance</u>
Operating Revenues	
Charges for Services	<u>\$2,957,632</u>
Operating Expenses	
Purchased Services	467,429
Claims	2,868,169
Total Operating Expenses	<u>3,335,598</u>
Loss before Transfers	(377,966)
Transfers In	<u>400,000</u>
Change in Net Position	22,034
Net Position Beginning of Year	<u>79,210</u>
Net Position End of Year	<u><u>\$101,244</u></u>

See accompanying notes to the basic financial statements

East Muskingum Local School District, Ohio

Statement of Cash Flows

Self-Insurance Internal Service Fund

For the Fiscal Year Ended June 30, 2018

	<u>Medical-Dental Insurance</u>
Increase (Decrease) in Cash and Cash Equivalents	
Cash Flows from Operating Activities:	
Cash Received from Interfund Services Provided	\$2,957,632
Cash Payments to Suppliers for Services	(467,429)
Cash Payments for Claims	<u>(2,869,151)</u>
<i>Net Cash Used for Operating Activities</i>	(378,948)
Cash Flows from Noncapital Financing Activities	
Transfers In	400,000
<i>Cash and Cash Equivalents Beginning of Year</i>	<u>371,011</u>
<i>Cash and Cash Equivalents End of Year</i>	<u><u>\$392,063</u></u>
Reconciliation of Operating Loss to	
Net Cash Used for Operating Activities:	
Operating Loss	(\$377,966)
Changes in Liabilities:	
Decrease in Claims Payable	<u>(982)</u>
<i>Net Cash Used for Operating Activities</i>	<u><u>(\$378,948)</u></u>

See accompanying notes to the basic financial statements

East Muskingum Local School District, Ohio

Statement of Fiduciary Assets and Liabilities

Agency Fund

June 30, 2018

Assets	
Equity in Pooled Cash and Cash Equivalents	<u><u>\$38,618</u></u>
Liabilities	
Due to Students	<u><u>\$38,618</u></u>

See accompanying notes to the basic financial statements

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East Muskingum Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2018

Note 1 - Description of the School District and Reporting Entity

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

The School District was established in 1958. The School District serves an area of approximately 192 square miles. It is located in Muskingum and Guernsey Counties, and includes all of the Village of New Concord, Ohio. The School District is staffed by 96 classified employees and 149 certificated full-time teaching personnel who provide services to 2,069 students and other community members. The School District currently operates six instructional buildings, two administrative buildings, and four garage/storage buildings.

Reporting Entity

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

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

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

Note 2 - Summary of Significant Accounting Policies

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

East Muskingum Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2018

Basis of Presentation

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

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

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

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

Fund Accounting

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

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

East Muskingum Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2018

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

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

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

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

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

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

Measurement Focus

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

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

East Muskingum Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2018

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

Basis of Accounting

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

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

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

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

Deferred Outflows/Inflows of Resources In addition to assets, the statements of financial position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources, represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. For the School District, deferred outflows of resources are reported on the government-wide statement of net position for pension and OPEB plans. The deferred outflows of resources related to pension/OPEB are explained in Notes 11 and 12.

In addition to liabilities, the statements of financial position report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized until that time. For the School District, deferred inflows of resources include property taxes, pension, OPEB plans and unavailable revenue.

East Muskingum Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2018

Property taxes represent amounts for which there is an enforceable legal claim as of June 30, 2018, but which were levied to finance fiscal year 2019 operations. These amounts have been recorded as a deferred inflow on both the government-wide statement of net position and the governmental fund financial statements. Unavailable revenue is reported only on the governmental funds balance sheet, and represents receivables which will not be collected within the available period. For the School District, unavailable revenue includes delinquent property taxes, accrued interest, accounts receivable, and intergovernmental grants. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available. The details of these unavailable revenues are identified on the Reconciliation of Total Governmental Fund Balance to Net Position of Governmental Activities found on page 18. Deferred inflows of resources related to pension and OPEB plans are reported on the government-wide statement of net position. (See Notes 11 and 12)

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

Cash and Cash Equivalents

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

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

During fiscal year 2018, investments were limited to negotiable certificates of deposits. Investments in negotiable certificates of deposits are reported at fair value based on quoted market prices.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the General Fund during fiscal year 2018 amounted to \$17,185, which includes \$5,434 assigned from other School District funds.

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

Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2018, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the fiscal year in which services are consumed.

Inventory

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

East Muskingum Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2018

Capital Assets

All of the School District's capital assets are general capital assets resulting from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net position but are not reported in the fund financial statements.

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

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

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

Restricted Assets

Assets are reported as restricted assets when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either externally imposed by creditors, contributors, grantors, or laws of other government or imposed by law through constitutional provisions or enabling legislation. Restricted assets in the General Fund represent cash and cash equivalents for unclaimed monies not available for appropriation.

Compensated Absences

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

Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the School District has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employees' wage rates at fiscal year-end, taking into consideration any limits specified in the School District's termination policy. The School District records a liability for accumulated unused sick leave after twenty-five years of current service with the School District.

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

East Muskingum Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2018

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

Accrued Liabilities and Long-Term Obligations

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

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, claims and judgments, compensated absences, and longevity benefits that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current fiscal year. Bonds, long-term notes, and capital leases are recognized as a liability on the governmental fund financial statements when due. Net pension/OPEB liability should be recognized in the governmental funds to the extent that benefit payments are due and payable and the pension/OPEB plan’s fiduciary net position is not sufficient for payment of those benefits.

Pensions/Other Postemployment Benefits (OPEB)

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

Bond Premium and Issuance Costs

In government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities on the statement of net position. Bond premiums are deferred and amortized over the term of the bonds using the straight-line method, which approximates the effective interest method. Bond premiums are presented as an addition to the face amount of the bonds.

In the government fund financial statements, issuance costs and bond premiums are recognized in the current period. The face amount of the debt issue is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Under Ohio law, premiums on the original issuance of debt are to be deposited to the bond retirement fund to be used for debt retirement and are precluded from being applied to the project fund. Ohio law does allow premiums on refunding debt to be used as part of the repayment to the bond escrow agent.

Internal Activity

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

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

East Muskingum Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2018

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

Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans or interfund services provided and used are classified as "interfund receivables/payables". These amounts are eliminated on 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 governmental funds. The classifications are as follows:

Nonspendable: The nonspendable fund balance category includes amounts that cannot be spent because they are not in spendable form, or are legally or contractually required to be maintained intact. The "not in spendable form" includes items that are not expected to be converted to cash. It can also include the long-term amount of loans receivable, prepaids, as well as inventory, unless the use of the proceeds from the collection of those receivables, or from the use of the prepaids or inventory, is restricted, committed, or assigned.

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

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

Assigned: Amounts in the assigned fund balance classification are intended to be used by the School District for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the General Fund, assigned amounts represent intended uses established by the School District Board of Education delegated that authority by State statute. State statute authorizes the Treasurer to assign fund balance for purchases on order provided such amounts have been lawfully appropriated. The Board of Education assigned fund balance to cover a gap between estimated revenue and appropriations in the 2019's appropriated budget.

East Muskingum Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2018

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

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

Net Position

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

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

Operating Revenues and Expenses

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

Extraordinary and Special Items

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

Estimates

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

Budgetary Data

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

East Muskingum Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2018

The Treasurer has been authorized to allocate Board appropriations to the function and object level.

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

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

Note 3 - Changes in Accounting Principles and Restatement of Net Position

For fiscal year 2018, the School District implemented Governmental Accounting Standards Board (GASB) Statement No. 85, *Omnibus 2017*, Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, and related guidance from (GASB) Implementation Guide No. 2017-3, *Accounting and Financial Reporting for Postemployment Benefits other Than Pensions (and Certain Issues Related to OPEB Plan Reporting)*.

For fiscal year 2018, the School District also implemented the Governmental Accounting Standards Board's (GASB) *Implementation Guide No. 2017-1*. These changes were incorporated in the School District's fiscal year 2018 financial statements; however, there was no effect on beginning net position/fund balance.

GASB 85 addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits (OPEB)). These changes were incorporated in the School District's fiscal year 2018 financial statements; however, there was no effect on beginning net position/fund balance.

GASB 75 established standards for measuring and recognizing Postemployment benefit liabilities, deferred outflows of resources, deferred inflows of resources and expense/expenditure. The implementation of this pronouncement had the following effect on net position as reported June 30, 2017:

Net Position June 30, 2017	(\$3,581,615)
Adjustments:	
Net OPEB Liability	(6,340,982)
Deferred Outflow - Payments Subsequent to Measurement Date	<u>41,012</u>
Restated Net Position June 30, 2017	<u><u>(\$9,881,585)</u></u>

Other than employer contributions subsequent to the measurement date, the School District made no restatement for deferred inflows/outflows of resources as the information needed to generate these restatements was not available.

East Muskingum Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2018

Note 4 - Budgetary Basis of Accounting

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

The major differences between the budget basis and GAAP (modified accrual) basis are as follows:

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

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

Net Change in Fund Balance	
GAAP Basis	\$620,468
Net Adjustment for Revenue Accruals	(872,648)
Net Adjustment for Expenditure Accruals	(159,847)
Beginning of Fiscal Year:	
Fair Value Adjustment for Investments	47,551
Prepaid Items	55,596
End of Fiscal Year:	
Unrecorded Cash	(3,470)
Fair Value Adjustment for Investments	41,809
Prepaid Items	(62,038)
Advances - In	71,162
Advances - Out	(65,191)
Adjustment for Encumbrances	(137,091)
Budget Basis	<u><u>(\$463,699)</u></u>

East Muskingum Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2018

Note 5 - Deposits and Investments

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

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

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

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

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, or by the financial institutions participation in the Ohio Pooled Collateral System (OPCS), a collateral pool of eligible securities deposited with a qualified trustee and pledged to the Treasurer of State to secure the repayment of all public monies deposited in the financial institution.

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

1. United States Treasury notes, bills, bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, and Government National Mortgage 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 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 the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio, and with certain limitations, bonds and other obligations of political subdivisions of the State of Ohio;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;

East Muskingum Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2018

6. No-load money market mutual funds consisting exclusively of obligations described in (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. Certain bankers’ acceptances and commercial paper notes for a period not to exceed one hundred eighty days in an amount not to exceed 40 percent of the interim monies available for investment at any one time if training requirements have been met.

Investments in stripped principal or interest obligations, reverse repurchase agreements, and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of 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, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

Investments

As of June 30, 2018, the School District had the following investments:

<u>Measurement/Investment</u>	<u>Measurement Amount</u>	<u>Maturity</u>	<u>Rating</u>	<u>Rating Agency</u>	<u>Percent of Total Investments</u>
Fair Value - Level Two Inputs					
Negotiable Certificates of Deposit	\$3,319,195	10/22/2018-01/30/2023	N/A	N/A	100.00%

The School District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets. Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The above chart identifies the School District’s recurring fair value measurements as of June 30, 2018. All of the School District’s investments measured at fair value are valued using other significant observable inputs (Level 2 inputs).

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

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

East Muskingum Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2018

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

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

Note 6 - Property Taxes and Tax Abatements

Property Taxes

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

Property taxes include amounts levied against all real and public utility property located in the School District. Real property tax revenue received in calendar year 2018 represents collections of calendar year 2017 taxes. Real property taxes received in calendar year 2018 were levied after April 1, 2017, on the assessed value listed as of January 1, 2017, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar year 2018 represents collections of calendar year 2017 taxes. Public utility real and tangible personal property taxes received in calendar year 2018 became a lien December 31, 2016, were levied after April 1, 2017, and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

The School District receives property taxes from Muskingum and Guernsey Counties. The County Auditors periodically advance to the School District its portion of the taxes collected. Second-half real property tax payments collected by the counties by June 30, 2018, are available to finance fiscal year 2018 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable includes real property and public utility property taxes which were measurable as of June 30, 2018, and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reflected as revenue at fiscal year-end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred inflows of resources - property taxes.

East Muskingum Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2018

The amount available as an advance, and recognized as revenue at June 30, 2018, was \$2,576,250 in the General Fund, \$44,373 in the Classroom Facilities Special Revenue Fund, \$183,764 in the Bond Retirement Debt Service Fund, and \$259,795 in the Permanent Improvement Levy Capital Projects Fund. The amount available as an advance at June 30, 2017, was \$1,734,415 in the General Fund, \$30,044 in the Classroom Facilities Special Revenue Fund, \$126,458 in the Bond Retirement Debt Service Fund, and \$170,893 in the Permanent Improvement Levy Capital Projects Fund.

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

The assessed values upon which the fiscal year 2018 taxes were collected are:

	2017 Second- Half Collections		2018 First- Half Collections	
	Amount	Percent	Amount	Percent
Real Estate	\$259,377,310	83.06%	\$261,240,700	82.84%
Public Utility Personal	52,886,130	16.94%	54,129,220	17.16%
Total	\$312,263,440	100.00%	\$315,369,920	100.00%
 Tax rate per \$1,000 of assessed valuation	 \$37.61		 \$37.56	

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

Tax Abatements

School District property taxes were reduced under an Enterprise Zone Tax Exemption agreement entered into by Muskingum County. The total tax abated amount for fiscal year 2018 was \$30,719.

Note 7 - Receivables

Receivables at June 30, 2018, consisted of property taxes, intergovernmental grants, accounts, interfund, and accrued interest. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current year guarantee of federal funds. Delinquent property taxes deemed collectible by the County Auditors and recorded as a receivable in the amount of \$721,963 may not be collected in one year. All other receivables are expected to be received within one year.

A summary of principal items of intergovernmental receivables follows:

East Muskingum Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2018

	<u>Amounts</u>
<u>Governmental Activities</u>	
Title I Grant	\$66,887
Title II-A	6,942
Title VI-B IDEA Grant	149,959
Title IV-A Grant	10,000
Medicaid Reimbursements	3,075
State Foundation Adjustments	33,064
Miscellaneous Intergovernmental Receivables	<u>4,468</u>
Total Governmental Activities	<u><u>\$274,395</u></u>

Note 8 - Capital Assets

Capital assets activity for the fiscal year ended June 30, 2018, was as follows:

	<u>Balance</u>			<u>Balance</u>
	<u>June 30, 2017</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2018</u>
Nondepreciable Capital Assets				
Land	\$238,139	\$0	\$0	\$238,139
Land Improvements	6,850	0	0	6,850
Total Non-Depreciable Capital Assets	<u>244,989</u>	<u>0</u>	<u>0</u>	<u>244,989</u>
Depreciable Capital Assets				
Buildings and Improvements	41,958,141	22,084	0	41,980,225
Furniture, Fixtures, and Equipment	1,593,111	5,000	(5,000)	1,593,111
Vehicles	2,412,635	166,354	0	2,578,989
Total Depreciable Capital Assets	<u>45,963,887</u>	<u>193,438</u>	<u>(5,000)</u>	<u>46,152,325</u>
Less Accumulated Depreciation				
Buildings and Improvements	(23,266,366)	(1,027,150)	0	(24,293,516)
Furniture, Fixtures, and Equipment	(1,158,591)	(41,294)	5,000	(1,194,885)
Vehicles	(1,335,722)	(119,100)	0	(1,454,822)
Total Accumulated Depreciation	<u>(25,760,679)</u>	<u>(1,187,544) *</u>	<u>5,000</u>	<u>(26,943,223)</u>
Depreciable Capital Assets, Net of Accumulated Depreciation	<u>20,203,208</u>	<u>(994,106)</u>	<u>0</u>	<u>19,209,102</u>
Governmental Activities Capital Assets, Net	<u><u>\$20,448,197</u></u>	<u><u>(\$994,106)</u></u>	<u><u>\$0</u></u>	<u><u>\$19,454,091</u></u>

East Muskingum Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2018

* Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$580,886
Special	116,130
Vocational	13,064
Support Services:	
Pupils	21,067
Instructional Staff	38,513
Administration	102,733
Fiscal	3,841
Operation and Maintenance of Plant	78,990
Pupil Transportation	115,701
Food Service Operations	113,150
Extracurricular	3,469
Total Depreciation Expense	<u>\$1,187,544</u>

Note 9 - Risk Management

Property and Liability

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2018, the School District purchased its property, fleet, and liability insurance from Argonaut Insurance Company.

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

Building and Contents-replacement cost (\$2,500 deductible)	\$62,492,689
Automobile Liability (\$250 Comprehensive/\$500 Collision deductible)	1,000,000
Auto Medical Payments	5,000
Uninsured/Underinsured Motorists	1,000,000
General Liability	
Per occurrence	1,000,000
Aggregate Per Year	3,000,000
Rented Property Damage	500,000
Employee Benefits Liability	
Per occurrence	1,000,000
Aggregate Per Year	3,000,000
Employer's Liability	1,000,000
Educators Legal Liability Limit (\$2,500 deductible)	1,000,000
Aggregate Per Year	3,000,000
Commercial Excess Liability	1,000,000
Commercial Crime	25,000

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

East Muskingum Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2018

Workers' Compensation

For fiscal year 2018, the School District participated in the Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 17). The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Hunter Consulting Company provides administrative, cost control, and actuarial services to the GRP.

Employee Medical/Surgical and Dental Benefits

The School District offers three medical/surgical insurance plans and one dental insurance plan to employees covered through a self-insurance internal service fund. Monthly premiums are paid to the fiscal agent who in turn pays the claims on the School District's behalf. The Board of Education pays \$1,371.02 of the medical/surgical premiums for family coverage and \$589.24 for single coverage. The Board of Education pays 100 percent of the dental premiums for family and single coverage which is \$74 for both. The medical/surgical and dental premiums are paid from the fund that pays the salary of the covered employee. The claims liability of \$290,819 reported in the internal service fund at June 30, 2018, is based on an estimate provided by the third party administrator and the requirements of Governmental Accounting Standards Board Statement No. 30, which requires that a liability for unpaid claim costs, including estimates of costs relating to incurred but not reported claims, be reported. The estimate was not affected by incremental claim adjustment expenses and does not include other allocated or unallocated claim adjustment expenses. The School District purchases an aggregate stop-loss coverage policy in the amount of \$4,099,678. In addition, the School District has contracted for an excess stop-loss coverage, with a maximum allowable covered expense per individual of \$100,000 annually.

Changes in the fund's claims liability amount in fiscal years 2017 and 2018 were:

	Balance at Beginning of Year	Current Year Claims	Claim Payments	Balance at End of Year
2017	\$203,295	\$3,294,774	\$3,206,268	\$291,801
2018	291,801	2,868,169	2,869,151	290,819

Note 10 - Employee Benefits

Compensated Absences

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

East Muskingum Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2018

Teachers, administrators, and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of 220 days for all personnel. Upon retirement, payment is made for one-third of accrued, but unused sick leave credit to a maximum of 40 days for all employees.

Life and Vision Insurance

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

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

Longevity Benefits Payable

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

Note 11 - Defined Benefit Pension Plans

The Statewide retirement systems provide both pension benefits and other postemployment benefits (OPEB).

Net Pension Liability/Net OPEB Liability

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

The net pension/OPEB liabilities represent the School District's proportionate share of each pension/OPEB plan's collective actuarial present value of projected benefit payments attributable to past periods of service, net of each pension/OPEB plan's fiduciary net position. The net pension/OPEB 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 these estimates annually.

East Muskingum Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2018

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 and OPEB.

GASB 68/75 assumes the liability is solely the obligation of the employer, because (1) they benefit from employee services; and (2) State statute requires funding to come from these employers. All pension contributions to date have come solely from these employers (which also includes pension costs paid in the form of withholdings from employees). The retirement systems may allocate a portion of the employer contributions to provide for these OPEB benefits. In addition, health care plan enrollees pay a portion of the health care costs in the form of a monthly premium. State statute requires the retirement systems to amortize unfunded pension liabilities within 30 years. If the pension amortization period exceeds 30 years, each retirement system’s board must propose corrective action to the State legislature. Any resulting legislative change to benefits or funding could significantly affect the net pension/OPEB liability. Resulting adjustments to the net pension/OPEB liability would be effective when the changes are legally enforceable. The Ohio Revised Code permits, but does not require the retirement systems to provide healthcare to eligible benefit recipients.

The proportionate share of each plan’s unfunded benefits is presented as a long-term *net pension/OPEB liability* on the accrual basis of accounting. Any liability for the contractually-required pension/OPEB contribution outstanding at the end of the year is included in *intergovernmental payable* on both the accrual and modified accrual bases of accounting. The remainder of this note includes the required pension disclosures. See Note 12 for the required OPEB disclosures.

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 under Employers/Audit Resources.

Age and service requirements for retirement are as follows:

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

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

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

East Muskingum Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2018

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, 2018, the allocation to pension, death benefits, and Medicare B was 13.5 percent. The remaining .5 percent was allocated to the Health Care Fund.

The School District's contractually required contribution to SERS was \$324,109 for fiscal year 2018. Of this amount \$43,734 is reported as an intergovernmental payable.

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 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.

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 is 2.2 percent of final average salary for the five highest years of earnings multiplied by all years of service. Effective July 1, 2017, the cost-of-living adjustment was reduced to zero. Members are eligible to retire at age 60 with five years of qualifying service credit, or age 55 with 26 years of service, or 31 years of service regardless of age. Eligibility changes will be phased in until August 1, 2026, when retirement eligibility for unreduced benefits will be five years of service credit and age 65, or 35 years of service credit and at least age 60.

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

The Combined Plan offers features of both the DB Plan and the DC Plan. In the Combined Plan, 12 percent of the 14 percent member rate goes to the DC Plan and the remaining 2 percent goes to the DB Plan. Member contributions to the DC Plan are allocated among investment choices by the member, and contributions to the DB Plan from the employer and the member are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60 with five years of service.

East Muskingum Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2018

The defined contribution portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity after termination of employment at age 50 or later.

New members who choose the DC plan or Combined Plan will have another opportunity to reselect a permanent plan during their fifth year of membership. Members may remain in the same plan or transfer to another STRS 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 to apply for disability benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member of the DC Plan dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Funding Policy - Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. For the fiscal year ended June 30, 2018, the employer rate was 14 percent and the plan members were also required to contribute 14 percent of covered salary. The fiscal year 2018 contribution rates were equal to the statutory maximum rates.

The School District's contractually required contribution to STRS was \$1,213,740 for fiscal year 2018. Of this amount \$128,146 is reported as an intergovernmental payable.

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

The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The School District's proportion of the net pension liability was based on the School District's share of contributions to the pension plan relative to the contributions of all participating entities. Following is information related to the proportionate share and pension expense:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportion of the Net Pension Liability			
Prior Measurement Date	0.07585630%	0.07755320%	
Proportion of the Net Pension Liability			
Current Measurement Date	<u>0.07272830%</u>	<u>0.07646400%</u>	
Change in Proportionate Share	<u>-0.00312800%</u>	<u>-0.00108920%</u>	
Proportionate Share of the Net Pension Liability	\$4,345,355	\$18,164,189	\$22,509,544
Pension Expense	(\$251,948)	(\$7,399,639)	(\$7,651,587)

At June 30, 2018, the School District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

East Muskingum Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2018

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Deferred Outflows of Resources			
Differences between expected and actual experience	\$187,010	\$701,416	\$888,426
Changes of assumptions	224,702	3,972,707	4,197,409
School District contributions subsequent to the measurement date	<u>324,109</u>	<u>1,213,740</u>	<u>1,537,849</u>
Total Deferred Outflows of Resources	<u><u>\$735,821</u></u>	<u><u>\$5,887,863</u></u>	<u><u>\$6,623,684</u></u>
Deferred Inflows of Resources			
Differences between expected and actual experience	\$0	\$146,396	\$146,396
Net difference between projected and actual earnings on pension plan investments	20,626	599,439	620,065
Changes in proportionate share and difference between School District contributions and proportionate share of contributions	<u>177,013</u>	<u>1,060,690</u>	<u>1,237,703</u>
Total Deferred Inflows of Resources	<u><u>\$197,639</u></u>	<u><u>\$1,806,525</u></u>	<u><u>\$2,004,164</u></u>

\$1,537,849 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, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Fiscal Year Ending June 30:			
2019	\$89,025	\$431,424	\$520,449
2020	199,236	1,246,868	1,446,104
2021	27,111	938,674	965,785
2022	<u>(101,299)</u>	<u>250,632</u>	<u>149,333</u>
Totals	<u><u>\$214,073</u></u>	<u><u>\$2,867,598</u></u>	<u><u>\$3,081,671</u></u>

Actuarial Assumptions - SERS

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

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

East Muskingum Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2018

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, 2017, are presented below:

Wage Inflation	3.00 percent
Future Salary Increases, including inflation	3.50 percent to 18.20 percent
COLA or Ad Hoc COLA	2.5 percent
Investment Rate of Return	7.50 percent net of investments expense, including inflation
Actuarial Cost Method	Entry Age Normal

Prior to 2017, an assumption of 3 percent was used for COLA or Ad Hoc COLA.

For 2017, the mortality rates were based on the RP-2014 Blue Collar Mortality Table with fully generational projection and a five year age set-back for both males and females. Mortality among service retired members, and beneficiaries were based upon the RP-2014 Blue Collar Mortality Table with fully generational projection with Scale BB, 120 percent of male rates, and 110 percent of female rates. Mortality among disabled members were based upon the RP-2000 Disabled Mortality Table, 90 percent for male rates and 100 percent for female rates, set back five years is used for the period after disability retirement.

The most recent experience study was completed for the five year period ended June 30, 2015.

The long-term return expectation for the Pension Plan Investments has been determined by 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 an arithmetic weighted average of the expected real return premiums for each asset class, adding the projected inflation rate, and adding the expected return from rebalanced uncorrelated asset classes.

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Cash	1.00 %	0.50 %
US Stocks	22.50	4.75
Non-US Stocks	22.50	7.00
Fixed Income	19.00	1.50
Private Equity	10.00	8.00
Real Assets	15.00	5.00
Multi-Asset Strategies	10.00	3.00
 Total	 <u>100.00 %</u>	

East Muskingum Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2018

Discount Rate The total pension liability was calculated using the discount rate of 7.50 percent. The projection of cash flows used to determine the discount rate assumed the contributions from employers and from the members would be computed based on contribution requirements as stipulated by State statute. Projected inflows from investment earnings were calculated using the long-term assumed investment rate of return (7.50 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 7.50 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 (6.50 percent), or one percentage point higher (8.50 percent) than the current rate.

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
School District's proportionate share of the net pension liability	\$6,030,224	\$4,345,355	\$2,933,934

Actuarial Assumptions - STRS

Key methods and assumptions used in the latest actuarial valuation, reflecting experience study results used in the July 1, 2017, actuarial valuation, compared with July 1, 2016 are presented below:

	July 1, 2017	July 1, 2016
Inflation	2.50 percent	2.75 percent
Projected salary increases	12.50 percent at age 20 to 2.50 percent at age 65	12.25 percent at age 20 to 2.75 percent at age 70
Investment Rate of Return	7.45 percent, net of investment expenses, including inflation	7.75 percent, net of investment expenses, including inflation
Payroll Increases	3 percent	3.5 percent
Cost-of-Living Adjustments (COLA)	0.0 percent, effective July 1, 2017	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 commences on fifth anniversary of retirement date.

For the July 1, 2017, actuarial valuation, post-retirement mortality rates for healthy retirees are based on the RP-2014 Annuitant Mortality Table with 50 percent of rates through age 69, 70 percent of rates between ages 70 and 79, 90 percent of rates between ages 80 and 84, and 100 percent of rates thereafter, projected forward generationally using mortality improvement scale MP-2016. Post-retirement disabled mortality rates are based on the RP-2014 Disabled Mortality Table with 90 percent of rates for males and 100 percent of rates for females, projected forward generationally using mortality improvement scale MP-2016. Pre-retirement mortality rates are based on RP-2014 Employee Mortality Table, projected forward generationally using mortality improvement scale MP-2016.

East Muskingum Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2018

For the July 1, 2016 actuarial valuation, 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 no set back from age 90 and above.

Actuarial assumptions used in the July 1 2017, valuation are based on the results of an actuarial experience study for the period July 1, 2011 through June 30, 2016. Actuarial assumptions used in the June 30, 2016, valuation are based on the results of an actuarial experience study, effective July 1, 2012.

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Rate of Return *</u>
Domestic Equity	28.00 %	7.35 %
International Equity	23.00	7.55
Alternatives	17.00	7.09
Fixed Income	21.00	3.00
Real Estate	10.00	6.00
Liquidity Reserves	1.00	2.25
Total	<u>100.00 %</u>	

* 10 year annualized geometric nominal returns, which include the real rate of return and inflation of 2.25 percent and does not include investment expenses. Over a 30-year period, STRS' investment consultant indicates that the above target allocations should generate a return above the actuarial rate of return, without net value added by management.

Discount Rate The discount rate used to measure the total pension liability was 7.45 percent as of June 30, 2017. The discount rate used to measure the total pension liability was 7.75 percent as of June 30, 2016. The projection of cash flows used to determine the discount rate assumes that 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. 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, 2017. Therefore, the long-term expected rate of return on pension plan investments of 7.45 percent was applied to all periods of projected benefit payment to determine the total pension liability as of June 30, 2017.

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 7.45 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 (6.45 percent) or one percentage point higher (8.45 percent) than the current rate:

East Muskingum Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2018

	1% Decrease (6.45%)	Current Discount Rate (7.45%)	1% Increase (8.45%)
School District's proportionate share of the net pension liability	\$26,037,744	\$18,164,189	\$11,531,896

Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement System. As of June 30, 2018, there are three employees who have elected Social Security. The Board of Education's liability is 6.2 percent of wages paid.

Note 12 - Defined Benefit OPEB Plans

See Note 11 for a description of the net OPEB liability.

School Employees Retirement System (SERS)

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 75 purposes, this plan is considered a cost-sharing other postemployment benefit (OPEB) plan. SERS' Health Care Plan provides healthcare benefits to eligible individuals receiving retirement, disability, and survivor benefits, and to their eligible dependents. Members who retire after June 1, 1986, need 10 years of service credit, exclusive of most types of purchased credit, to qualify to participate in SERS' health care coverage. In addition to age and service retirees, disability benefit recipients and beneficiaries who are receiving monthly benefits due to the death of a member or retiree, are eligible for SERS' health care coverage. Most retirees and dependents choosing SERS' health care coverage are over the age of 65 and therefore enrolled in a fully insured Medicare Advantage Plan; however, SERS maintains a traditional, self-insured preferred provider organization for its non-Medicare retiree population. For both groups, SERS offers a self-insured prescription drug program. Health care is a benefit that is permitted, not mandated, by statute. The financial report of the Plan is included in the SERS Comprehensive Annual Financial Report which can be obtained on SERS' website at www.ohsers.org under Employers/Audit Resources.

Access to health care for retirees and beneficiaries is permitted in accordance with Section 3309 of the Ohio Revised Code. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). SERS' Retirement Board reserves the right to change or discontinue any health plan or program. Active employee members do not contribute to the Health Care Plan. The SERS Retirement Board established the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending on the plan selected, qualified years of service, Medicare eligibility, and retirement status.

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required pensions and benefits, the Retirement Board may allocate the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund in accordance with the funding policy. For fiscal year 2018, .5 percent of covered payroll was made to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated if less than a full year of service credit was earned.

East Muskingum Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2018

For fiscal year 2018, this amount was \$23,700. 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 2018, the School District’s surcharge obligation was \$40,082.

The surcharge, added to the allocated portion of the 14 percent employer contribution rate is the total amount assigned to the Health Care Fund. The School District’s contractually required contribution to SERS was \$52,086 for fiscal year 2018. Of this amount \$41,702 is reported as an intergovernmental payable.

State Teachers Retirement System

Plan Description - The State Teachers Retirement System of Ohio (STRS) administers a cost-sharing Health Plan administered 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 partial reimbursement of monthly Medicare Part B premiums. Medicare Part B premium reimbursements will be discontinued effective January 1, 2020. The Plan is included in the report of STRS which can be obtained by visiting www.strsoh.org or by calling (888) 227-7877.

Funding Policy - Ohio Revised Code Chapter 3307 authorizes STRS to offer the Plan and gives the Retirement Board discretionary 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. Nearly all health care plan enrollees, for the most recent year, pay a portion of the health care costs in the form of a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2018, STRS did not allocate any employer contributions to post-employment health care.

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

The net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The School District's proportion of the net OPEB liability was based on the School District's share of contributions to the respective retirement systems relative to the contributions of all participating entities. Following is information related to the proportionate share and OPEB expense:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportion of the Net OPEB Liability			
Prior Measurement Date	0.07695200%	0.07755320%	
Proportion of the Net OPEB Liability			
Current Measurement Date	<u>0.07395480%</u>	<u>0.07646400%</u>	
Change in Proportionate Share	<u>-0.00299720%</u>	<u>-0.00108920%</u>	
Proportionate Share of the Net OPEB Liability	\$1,984,752	\$2,983,344	\$4,968,096
OPEB Expense	\$93,831	(\$918,676)	(\$824,845)

East Muskingum Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2018

At June 30, 2018, the School District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Deferred Outflows of Resources			
Differences between expected and actual experience	\$0	\$172,217	\$172,217
School District contributions subsequent to the measurement date	<u>52,086</u>	<u>0</u>	<u>52,086</u>
Total Deferred Outflows of Resources	<u><u>\$52,086</u></u>	<u><u>\$172,217</u></u>	<u><u>\$224,303</u></u>
Deferred Inflows of Resources			
Changes of assumptions	\$188,343	\$240,318	\$428,661
Changes in proportionate share and difference between School District contributions and proportionate share of contributions	67,900	49,929	117,829
Net difference between projected and actual earnings on OPEB plan investments	<u>5,241</u>	<u>127,515</u>	<u>132,756</u>
Total Deferred Inflows of Resources	<u><u>\$261,484</u></u>	<u><u>\$417,762</u></u>	<u><u>\$679,246</u></u>

\$52,086 reported as deferred outflows of resources related to OPEB resulting from School District contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Fiscal Year Ending June 30:	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
2019	(\$94,151)	(\$51,550)	(\$145,701)
2020	(94,151)	(51,550)	(145,701)
2021	(71,871)	(51,550)	(123,421)
2022	(1,311)	(51,551)	(52,862)
2023	0	(19,671)	(19,671)
Thereafter	<u>0</u>	<u>(19,673)</u>	<u>(19,673)</u>
Totals	<u><u>(\$261,484)</u></u>	<u><u>(\$245,545)</u></u>	<u><u>(\$507,029)</u></u>

Actuarial Assumptions - SERS

The total OPEB liability is determined by SERS' actuaries in accordance with GASB Statement No. 74, as part of their annual actuarial valuation for each 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 terminations). 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.

East Muskingum Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2018

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 OPEB liability in the latest actuarial valuation date of June 30, 2017, are presented below:

Wage Inflation	3.00 percent
Future Salary Increases, including inflation	3.50 percent to 18.20 percent
Investment Rate of Return	7.50 percent net of investments expense, including inflation
Municipal Bond Index Rate:	
Measurement Date	3.56 percent
Prior Measurement Date	2.92 percent
Single Equivalent Interest Rate, net of plan investment expense, including price inflation	
Measurement Date	3.63 percent
Prior Measurement Date	2.98 percent
Medical Trend Assumption	
Medicare	5.50 to 5.00 percent
Pre-Medicare	7.50 to 5.00 percent

Mortality rates were based on the RP-2014 Blue Collar Mortality Table with fully generational projection and Scale BB, 120 percent of male rates and 110 percent of female rates. RP-2000 Disabled Mortality Table with 90 percent for male rates and 100 percent for female rates set back five years.

The most recent experience study was completed for the five year period ended June 30, 2015.

The long-term expected rate of return on plan assets is reviewed as part of the actuarial five-year experience study. The most recent study covers fiscal years 2010 through 2015, and was adopted by the Board on April 21, 2016. Several factors are considered in evaluating the long-term rate of return assumption including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return, 7.50 percent, by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

East Muskingum Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2018

The SERS health care plan follows the same asset allocation and long-term expected real rate of return for each major asset class as the pension plan, see Note 11.

Discount Rate The discount rate used to measure the total OPEB liability at June 30, 2017 was 3.63 percent. The discount rate used to measure total OPEB liability prior to June 30, 2017 was 2.98 percent. The projection of cash flows used to determine the discount rate assumed that contributions will be made from members and the System at the State statute contribution rate of 2.00 percent of projected covered employee payroll each year, which includes a 1.50 percent payroll surcharge and 0.50 percent of contributions from the basic benefits plan. Based on these assumptions, the OPEB plan’s fiduciary net position was projected to become insufficient to make future benefit payments during the fiscal year ending June 30, 2025. Therefore, the long-term expected rate of return on OPEB plan assets was used to present value the projected benefit payments through the fiscal year ending June 30, 2024 and the Fidelity General Obligation 20-year Municipal Bond Index rate of 3.56 percent, as of June 30, 2017 (i.e. municipal bond rate), was used to present value the projected benefit payments for the remaining years in the projection. The total present value of projected benefit payments from all years was then used to determine the single rate of return that was used as the discount rate. The projection of future benefit payments for all current plan members was until the benefit payments ran out.

Sensitivity of the School District's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate and Changes in the Health Care Cost Trend Rates The net OPEB liability is sensitive to changes in the discount rate and the health care cost trend rate. The following table presents the net OPEB liability of SERS, what SERS' net OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (2.63%) and higher (4.63%) than the current discount rate (3.63%). Also shown is what SERS' net OPEB liability would be based on health care cost trend rates that are 2.5 percentage points lower (6.5% decreasing to 4.0%) and higher (8.5% decreasing to 6.0%) than the current rate.

	1% Decrease (2.63%)	Current Discount Rate (3.63%)	1% Increase (4.63%)
Center's proportionate share of the net OPEB liability	\$2,396,841	\$1,984,752	\$1,658,273

	1% Decrease (6.5 % decreasing to 4.0 %)	Trend Rate (7.5 % decreasing to 5.0 %)	1% Increase (8.5 % decreasing to 6.0 %)
Centers proportionate share of the net OPEB liability	\$1,610,478	\$1,984,752	\$2,480,111

Actuarial Assumptions – STRS

Key methods and assumptions used in the latest actuarial valuation, reflecting experience study results used in the June 30, 2017, actuarial valuation are presented below:

East Muskingum Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2018

Inflation	2.50 percent
Projected salary increases	12.50 percent at age 20 to 2.50 percent at age 65
Investment Rate of Return	7.45 percent, net of investment expenses, including inflation
Payroll Increases	3 percent
Cost-of-Living Adjustments (COLA)	0.0 percent, effective July 1, 2017
Blended Discount Rate of Return	4.13 percent
Health Care Cost Trends	6 to 11 percent initial, 4.5 percent ultimate

Projections of benefits include the historical pattern of sharing benefit costs between the employers and retired plan members.

For healthy retirees the mortality rates are based on the RP-2014 Annuitant Mortality Table with 50 percent of rates through age 69, 70 percent of rates between ages 70 and 79, 90 percent of rates between ages 80 and 84, and 100 percent of rates thereafter, projected forward generationally using mortality improvement scale MP-2016. For disabled retirees, mortality rates are based on the RP-2014 Disabled Mortality Table with 90 percent of rates for males and 100 percent of rates for females, projected forward generationally using mortality improvement scale MP-2016.

Actuarial assumptions used in the June 30, 2017, valuation are based on the results of an actuarial experience study for the period July 1, 2011 through June 30, 2016.

Since the prior measurement date, the discount rate was increased from 3.26 percent to 4.13 percent based on the methodology defined under *GASB Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans (OPEB)* and the long term expected rate of return was reduced from 7.75 percent to 7.45 percent. Valuation year per capita health care costs were updated, and the salary scale was modified. The percentage of future retirees electing each option was updated based on current data and the percentage of future disabled retirees and terminated vested participants electing health coverage were decreased. The assumed mortality, disability, retirement, withdrawal, and future health care cost trend rates were modified along with the portion of rebated prescription drug costs.

Also since the prior measurement date, the subsidy multiplier for non-Medicare benefit recipients was reduced from 2.1 percent to 1.9 percent per year of service. Medicare Part B premium reimbursements were discontinued for certain survivors and beneficiaries and all remaining Medicare Part B premium reimbursements will be discontinued beginning January 2019. Subsequent to the current measurement date, the date for discontinuing remaining Medicare Part B premium reimbursements was extended to January 2020.

The STRS health care plan follows the same asset allocation and long-term expected real rate of return for each major asset class as the pension plan, see Note 11.

Discount Rate The discount rate used to measure the total OPEB liability was 4.13 percent as of June 30, 2017. The projection of cash flows used to determine the discount rate assumes STRS Ohio continues to allocate no employer contributions to the health care fund. Based on these assumptions, the OPEB plan's fiduciary net position was not projected to be sufficient to make all projected future benefit payments of current plan members. The OPEB plan's fiduciary net position was projected to become insufficient to make future benefit payments during the fiscal year ending June 30, 2037.

East Muskingum Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2018

Therefore, the long-term expected rate of return on OPEB plan assets was used to determine the present value of the projected benefit payments through the fiscal year ending June 30, 2036 and the Bond Buyer 20-year municipal bond rate of 3.58 percent as of June 30, 2017 (i.e. municipal bond rate), was used to determine the present value of the projected benefit payments for the remaining years in the projection. The total present value of projected benefit payments from all years was then used to determine the single rate of return that was used as the discount rate. The blended discount rate of 4.13 percent, which represents the long-term expected rate of return of 7.45 percent for the funded benefit payments and the Bond Buyer 20-year municipal bond rate of 3.58 percent for the unfunded benefit payments, was used to measure the total OPEB liability as of June 30, 2017. A blended discount rate of 3.26 percent which represents the long term expected rate of return of 7.75 percent for the funded benefit payments and the Bond Buyer 20-year municipal bond rate of 2.85 percent for the unfunded benefit payments was used to measure the total OPEB liability at June 30, 2016.

Sensitivity of the School District's Proportionate Share of the Net OPEB Liability to Changes in the Discount and Health Care Cost Trend Rate The following table represents the net OPEB liability as of June 30, 2017, calculated using the current period discount rate assumption of 4.13 percent, as well as what the net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (3.13 percent) or one percentage point higher (5.13 percent) than the current assumption. Also shown is the net OPEB liability as if it were calculated using health care cost trend rates that are one percentage point lower or one percentage point higher than the current health care cost trend rates.

	1% Decrease (3.13%)	Current Discount Rate (4.13%)	1% Increase (5.13%)
School District's proportionate share of the net OPEB liability	\$4,005,090	\$2,983,344	\$2,175,829

	1% Decrease	Current Trend Rate	1% Increase
School District's proportionate share of the net OPEB liability	\$2,072,699	\$2,983,344	\$4,181,857

Note 13 - Capitalized Leases

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

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

Equipment acquired by lease has been capitalized in the government-wide statements governmental activities in the amount of \$184,179, which is equal to the present value of the minimum lease payments. A corresponding liability was recorded in the government-wide statements governmental activities. Assets acquired by governmental activities capitalized leases are reported, net of accumulated depreciation, in the amount of \$166,935. Principal payments in fiscal year 2018 totaled \$36,836 in the governmental funds.

East Muskingum Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2018

Future minimum lease payments through fiscal year 2022 are as follows:

<u>Fiscal Year</u>	<u>Principal</u>
2019	\$36,836
2020	36,836
2021	36,836
2022	18,417
Total	<u><u>\$128,925</u></u>

Note 14 - Long-Term Obligations

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

	<u>Outstanding 06/30/17</u>	<u>Additions</u>	<u>Reductions</u>	<u>Outstanding 06/30/18</u>	<u>Due Within One Year</u>
Governmental Activities:					
2012 School Facilities Refunding					
Serial Bonds - various	\$3,095,000	\$0	\$395,000	\$2,700,000	\$410,000
Bond Premium	95,298	0	13,614	81,684	0
Total General Obligation Bonds	<u>3,190,298</u>	<u>0</u>	<u>408,614</u>	<u>2,781,684</u>	<u>410,000</u>
2007 House Bill 264 Energy					
Conservation Notes - 4.5%	161,997	0	37,866	124,131	39,570
Net Pension Liability					
STRS	25,959,394	0	7,795,205	18,164,189	0
SERS	5,551,980	0	1,206,625	4,345,355	0
Total Net Pension Liability	<u>31,511,374</u>	<u>0</u>	<u>9,001,830</u>	<u>22,509,544</u>	<u>0</u>
Net OPEB Liability					
STRS	4,147,565	0	1,164,221	2,983,344	0
SERS	2,193,417	0	208,665	1,984,752	0
Total Net OPEB Liability	<u>6,340,982</u>	<u>0</u>	<u>1,372,886</u>	<u>4,968,096</u>	<u>0</u>
Capital Leases	165,761	0	36,836	128,925	36,836
Compensated Absences Payable	425,676	211,486	90,496	546,666	60,547
Longevity Benefits Payable	631,290	208,770	33,863	806,197	0
Total Long-Term Obligations	<u><u>\$42,427,378</u></u>	<u><u>\$420,256</u></u>	<u><u>\$10,982,391</u></u>	<u><u>\$31,865,243</u></u>	<u><u>\$546,953</u></u>

East Muskingum Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2018

There is no repayment schedule for the net pension liability or net OPEB liability. However, employer pension contributions are made from the following funds: General Fund and Food Service Special Revenue Fund. For additional information related to the net pension liability and net OPEB liability, see Note 11 and Note 12.

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

On September 9, 2011, the School District issued \$4,950,000 of School Facilities General Obligation Refunding serial bonds with varying interest rates between 2 percent to 4 percent. The general obligation refunding bonds were sold at a premium of \$176,988 that will be amortized over the term of the bonds. The amount amortized for fiscal year 2018 was \$13,614 leaving an unamortized balance of \$81,684. Issuance costs associated with the refunding bond issue, in the amount of \$86,809, was expensed in the year of issuance. The refunding resulted in a current refunding of the 2001 School Facilities serial and term bonds. \$5,121,344 (after premium, underwriting fees, and other issuance costs) was deposited into an irrevocable trust to provide for all future debt service payments on the refunded 2001 bonds. On December 1, 2011, the 2001 refunded bonds were called and paid in full and the escrow account was closed. As a result of the refunding, \$5,305,000 of refunded bonds is considered defeased and the liability is removed from the statement of net position. The refunding resulted in a difference between the net carrying amount of the debt and the acquisition in the amount of \$121,344. This difference was expensed during fiscal year 2012. The School District completed the current refunding to reduce its total debt service requirements over the next 12 years by \$582,478 in order to obtain an economic gain of \$487,382.

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

Fiscal Year	Principal	Interest	Total
2019	\$410,000	\$95,100	\$505,100
2020	425,000	79,306	504,306
2021	440,000	64,700	504,700
2022	455,000	47,900	502,900
2023	475,000	29,300	504,300
2024	495,000	9,900	504,900
Totals	<u>\$2,700,000</u>	<u>\$326,206</u>	<u>\$3,026,206</u>

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

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

On August 9, 2006, the School District issued \$497,079 in unvoted Energy Conservation Notes, under the authority of Ohio Revised Code sections 133.06(G) and 3313.46(B). The Energy Conservation Notes were issued for the purpose of purchasing and installing energy conservation measures.

East Muskingum Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2018

These energy conservation measures include geothermal cooling energy operational improvements to Perry Elementary. The energy conservation notes mature January 15, 2021. The debt will be retired through reductions in energy consumption and cost savings attributed to the installation of the energy conservation improvements.

Principal and interest requirements to retire the School Energy Conservation Notes, outstanding at June 30, 2018, are as follows:

Fiscal Year	Principal	Interest	Total
2019	\$39,570	\$5,586	\$45,156
2020	41,350	3,805	45,155
2021	43,211	1,945	45,156
Totals	<u>\$124,131</u>	<u>\$11,336</u>	<u>\$135,467</u>

The School District's overall legal debt margin was \$25,859,468 with an unvoted debt margin of \$314,943 at June 30, 2018.

Note 15 - Interfund Activity

Interfund receivables and payables during the current year consisted of the following:

	<u>Interfund Payable</u>
	Other Nonmajor Governmental
	<u>Totals</u>
<u>Interfund Receivable</u>	
Major Fund:	
General Fund	\$65,191

The governmental balance sheet reflects interfund receivables and payables in the amount of \$65,191. These are the result of cash deficit balances to state and federal grant funds. These were covered by a cash advance from the General Fund. The above interfund balances are anticipated to be repaid within one fiscal year.

During fiscal year 2018, the General Fund transferred \$400,000 to the Self-Insurance Internal Service Fund. This transfer was made in order to maintain a working balance in this fund until insurance rates could be reviewed.

Note 16 - Jointly Governed Organizations

Licking Area Computer Association (LACA)

The School District is a participant in LACA, which is a computer consortium. LACA is an association which serves 29 entities within the boundaries of Licking, Muskingum, Fairfield, Perry, Knox, and Medina Counties. These entities consist of public school districts, private schools, community schools, and educational service centers. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts.

East Muskingum Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2018

The governing board of LACA consists of the superintendents from all participating districts. The board exercised total control over the operations of LACA including budgeting, appropriating, contracting, and designating management. Each participant's control is limited to its representation on the board. The continued existence of LACA is not dependent on the School District's continued participation and the School District has no equity interest in the Association. The LACA constitution states that any school district withdrawing from the Association prior to the dissolution forfeits their claim to the Association's capital assets. The School District's total payments to LACA for computer and internet services during fiscal year 2018 were \$185,348. The fiscal agent for LACA is the Career and Technology Education Centers of Licking County. Financial information may be obtained from LACA at 150 South Quentin Road, Newark, Ohio 43055.

Mid-East Career and Technology Centers

The Mid-East Career and Technology Centers is a jointly governed organization providing vocational education services to its thirteen member school districts. The Center is a distinct political subdivision of the State of Ohio operated under the direction of a board consisting of one representative from each of the participating school district's elected boards. The board possesses its own taxing authority. The board also exercised total control over the operations of Mid-East Career and Technology Centers including budgeting, appropriating, contracting, and designating management. Each participant's control is limited to its representation on the board. The continued existence of the Center is not dependent on the School District's continued participation and no equity interest exists. During fiscal year 2018, the School District made no contributions to the Center. Financial information may be obtained from Mid-East Career and Technology Centers at 400 Richards Road, Zanesville, Ohio 43701.

Metropolitan Educational Technology Association (META)

The School District participates in the Metropolitan Educational Technology Association (META), which is a jointly governed organization, created as a regional council of governments pursuant to Chapter 167 of the Ohio Revised Code. META is also known as META Solutions. META operates as, and has all the powers of, a data acquisition site/information technology center pursuant to applicable provisions of the Ohio Revised Code. The organization was formed for the purpose of identifying, developing, and providing to members and nonmembers innovative educational and technological services and products, as well as expanded opportunities for cooperative purchasing. The School District uses the META purchasing cooperative. The General Assembly of META consists of one delegate from every member school district. The delegate is the superintendent of the school district or the superintendent's designee. The degree of control exercised by any participating school district is limited to its representation on the General Assembly. The General Assembly exercises total control over the operation of META including budgeting, appropriating, contracting, and designating management. During fiscal year 2018, the School District's membership payment for the purchasing cooperative was waived by META. Financial information can be obtained from Metropolitan Educational Technology Association at 100 Executive Drive, Marion, Ohio 43302.

Coalition of Rural and Appalachian Schools (CORAS)

The Coalition of Rural and Appalachian Schools (CORAS) is a jointly governed organization composed of over 130 school districts and other educational institutions in the 35 county region of Ohio designated as Appalachia. The Coalition is operated by a board which is composed of nineteen members. One elected and one appointed from each of the eight regions into which the 35 Appalachian counties are divided; and three from Ohio University College of Education. The board exercised total control over the operations of CORAS including budgeting, appropriating, contracting, and designating management. Each participant's control is limited to its representation on the board.

East Muskingum Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2018

The Coalition provides various in-service training programs for school district administrative personnel; gathers data regarding the level of education provided to children in the region; cooperates with other professional groups to assess and develop programs designed to meet the needs of member districts; and provides staff development programs for school district personnel. The Coalition is not dependent on the continued participation of the School District and the School District does not maintain an equity interest in or financial responsibility for the Coalition. During fiscal year 2018, the School District made a membership payment in the amount of \$325 to CORAS. Financial information may be obtained from the Coalition of Rural and Appalachian Schools at 322 McCracken Hall, Ohio University, Athens, Ohio 45701.

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

The Ohio Mid-Eastern Regional Educational Service Agency (OME-RESA) was created as a regional council of governments pursuant to State statutes. OME-RESA has twelve participating counties consisting of Belmont, Carroll, Columbiana, Coshocton, Guernsey, Harrison, Holmes, Jefferson, Muskingum, Monroe, Noble, and Tuscarawas Counties. OME-RESA operates under the direction of a board, which possesses its own taxing authority, consisting of one representative from each of the participating school district's elected boards. The board also exercised total control over the operations of OME-RESA including budgeting, appropriating, contracting, and designating management. Each participant's control is limited to its representation on the board. OME-RESA provides educational management information and cooperative purchasing services to member districts. The School District participates in the sales service programs to purchase food, office, and classroom supplies. These programs allow schools to purchase supplies at reduced rates. During fiscal year 2018, the School District's fee was waived. The Jefferson County Educational Service Center serves as the fiscal agent and receives funding from the State Department of Education. Financial information may be obtained from OME-RESA at 2230 Sunset Boulevard, Suite 2, Steubenville, Ohio 43952.

Ohio Coalition of Equity and Adequacy of School Funding

The Ohio Coalition of Equity and Adequacy of School Funding is organized as a council of governments pursuant to Chapter 167 of the Ohio Revised Code. The Coalition was organized to challenge the constitutionality of the Ohio school funding system. The purpose of the Coalition is to bring about greater equity and adequacy of public school funding in Ohio. The Coalition is governed by a Steering Committee of 90 school district representatives. Though most of the members are superintendents, some treasurers, board members, and administrators also serve. Several persons serve as ex officio members. The Committee exercised total control over the operations of the Coalition including budgeting, appropriating, contracting, and designating management. Each participant's control is limited to its representation on the board. The membership of the coalition includes over 500 school districts throughout the State of Ohio. Member school districts, joint vocational schools, and educational service centers pay annual dues and supplemental dues based on their pupil enrollment. The Coalition is not dependent on the continued participation of the School District and the School District does not maintain an equity interest or financial responsibility for the Coalition. During fiscal year 2018, the School District paid \$1,103 to the Coalition. The fiscal agent for the Coalition is the Muskingum Valley Educational Service Center. Financial information may be obtained from the Ohio Coalition of Equity and Adequacy of School Funding at 100 South Third Street, Columbus, Ohio 43215.

Note 17 - Insurance Purchasing Pools

Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan

The School District participates in the Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool.

East Muskingum Local School District, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018*

The GRP’s business and affairs are conducted by an eleven member Executive Committee consisting of the Chairperson, the Vice-Chairperson, a representative from the Montgomery County Educational Service Center, and eight other members elected by majority vote of all participants. The Chief Administrator of the GRP serves as the coordinator of the program. Each fiscal year, the participants pay an enrollment fee to the GRP to cover the costs of administering the program.

Ohio School Benefits Cooperative

The School District participates in the Ohio School Benefits Cooperative, a claims servicing and group purchasing pool comprised of 39 members. The Ohio School Benefits Cooperative (OSBC) is created and organized pursuant to and as authorized by Section 9.833 of the Ohio Revised Code. OSBC is governed by a nine member Board of Directors, all of whom must be school district and/or educational service center administrators. The Muskingum Valley Educational Service Center serves as the fiscal agent for OSBC. OSBC is an unincorporated, non-profit association of its members which was created for the purpose of enabling members of the Plan to maximize benefits and/or reduce costs of medical, prescription drug, vision, dental, life and/or other group insurance coverage for their employees, and the eligible dependents and designated beneficiaries of such employees.

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

Note 18 - Accountability

The following special revenue funds had deficit fund balances as of June 30, 2018:

	<u>Amount</u>
Title I Grant	\$22,360
Straight A Grant	1,882
Title II-A Grant	9,401
Miscellaneous Federal Grants	27,376

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

Note 19 - Set-Asides

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

East Muskingum Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2018

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

	<u>Capital Acquisition</u>
Set-aside Reserve Balance June 30, 2017	\$0
Current Year Set-aside Requirement	390,469
Current Year Offsets	(1,289,965)
Current Year Qualifying Disbursements	<u>(444,002)</u>
Total	<u><u>(\$1,343,498)</u></u>
Balance Carried Forward to Future Fiscal Years	<u><u>\$0</u></u>

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

Note 20 - Significant Commitments

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

<u>Governmental Funds</u>	<u>Encumbrances</u>
General Fund	\$137,091
Permanent Improvement Levy	176,850
Nonmajor Governmental Funds	<u>43,878</u>
Total Governmental Funds	<u><u>\$357,819</u></u>

Note 21 - 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, 2018, if applicable, cannot be determined at this time.

East Muskingum Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2018

School Foundation

School District foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. The Ohio Department of Education (ODE) is legislatively required to adjust/reconcile funding as enrollment information is updated by schools throughout the State, which can extend past the fiscal year end. As of the date of this report, additional ODE adjustments for fiscal year 2018 are not finalized. As a result, the impact of future FTE adjustments on the fiscal year 2018 financial statements is not determinable, at this time. Management believes this may result in either an additional receivable to, or a liability of, the School District.

Litigation

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

Note 22 - Subsequent Event

On July 12, 2018, the School District approved an Enterprise Zone Tax Exemption agreement, entered into by and between Muskingum County and Bee Holding, Inc., d.b.a 5B's Inc. for the purpose of constructing a new fifty-five thousand square foot facility, purchasing new machinery, equipment, furniture, and fixtures, and creating one hundred new employment opportunities. To encourage these improvements, the property owner was granted a 75 percent exemption for the real property improvements.

The Board of Education approved a 1 percent base salary increase for certified and classified employees at the August 9, 2018 regular meeting to be effective August 13, 2018. The Board of Education also approved new medical/surgical insurance rates on all three plans offered to employees, which reflects a premium increase, effective October 1, 2018. Based upon information provided by the third party administrator, the Board of Education increased the employer share by 15 percent and the employee share by 15 percent, with the exception of one plan reflecting no increase for the employee share.

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

	2018	2017	2016	2015	2014
School District's Proportion of the Net Pension Liability	0.07272830%	0.07585630%	0.07605330%	0.07734700%	0.07734700%
School District's Proportionate Share of the Net Pension Liability	\$4,345,355	\$5,551,980	\$4,339,675	\$3,914,488	\$4,599,578
School District's Covered Payroll	\$2,374,514	\$2,204,307	\$2,244,550	\$2,256,335	\$2,275,313
School District's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	183.00%	251.87%	193.34%	173.49%	202.15%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	69.50%	62.98%	69.16%	71.70%	65.52%

(1) Although this schedule is intended to reflect information for ten years, information prior to 2014 is not available. An additional column will be added each year.

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

See accompanying notes to the required supplementary information

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

	2018	2017	2016	2015	2014
School District's Proportion of the Net Pension Liability	0.07646400%	0.07755320%	0.08005128%	0.08290091%	0.08290091%
School District's Proportionate Share of the Net Pension Liability	\$18,164,189	\$25,959,394	\$22,123,833	\$20,164,370	\$24,019,666
School District's Covered Payroll	\$8,373,600	\$7,836,329	\$8,713,943	\$8,472,100	\$8,778,800
School District's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	216.92%	331.27%	253.89%	238.01%	273.61%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	75.30%	66.80%	72.10%	74.70%	69.30%

(1) Although this schedule is intended to reflect information for ten years, information prior to 2014 is not available. An additional column will be added each year.

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

See accompanying notes to the required supplementary information

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

	2018	2017
School District's Proportion of the Net OPEB Liability	0.07395480%	0.07695200%
School District's Proportionate Share of the Net OPEB Liability	\$1,984,752	\$2,193,417
School District's Covered Payroll	\$2,374,514	\$2,204,307
School District's Proportionate Share of the Net OPEB Liability as a Percentage of its Covered Payroll	83.59%	99.51%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	12.46%	11.49%

(1) Although this schedule is intended to reflect information for ten years, information prior to 2017 is not available. An additional column will be added each year.

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

See accompanying notes to the required supplementary information

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

	2018	2017
School District's Proportion of the Net OPEB Liability	0.07646400%	0.07755320%
School District's Proportionate Share of the Net OPEB Liability	\$2,983,344	\$4,147,565
School District's Covered Payroll	\$8,669,571	\$8,373,600
School District's Proportionate Share of the Net OPEB Liability as a Percentage of its Covered Payroll	34.41%	49.53%
Plan Fiduciary Net Position as a Percentage of the Total OPEB	47.10%	37.30%

(1) Although this schedule is intended to reflect information for ten years, information prior to 2017 is not available. An additional column will be added each year.

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

See accompanying notes to the required supplementary information

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

	2018	2017	2016	2015
Net Pension Liability				
Contractually Required Contribution	\$324,109	\$332,432	\$308,603	\$295,832
Contributions in Relation to the Contractually Required Contribution	<u>(324,109)</u>	<u>(332,432)</u>	<u>(308,603)</u>	<u>(295,832)</u>
Contribution Deficiency (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
School District Covered Payroll (1)	\$2,400,807	\$2,374,514	\$2,204,307	\$2,244,550
Pension Contributions as a Percentage of Covered Payroll	<u>13.50%</u>	<u>14.00%</u>	<u>14.00%</u>	<u>13.18%</u>
Net OPEB Liability				
Contractually Required Contribution (2)	\$52,086	\$41,012	\$39,281	\$59,207
Contributions in Relation to the Contractually Required Contribution	<u>(52,086)</u>	<u>(41,012)</u>	<u>(39,281)</u>	<u>(59,207)</u>
Contribution Deficiency (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
OPEB Contributions as a Percentage of Covered Payroll	<u>2.17%</u>	<u>1.73%</u>	<u>1.78%</u>	<u>2.64%</u>
Total Contributions as a Percentage of Covered Payroll (2)	<u>15.67%</u>	<u>15.73%</u>	<u>15.78%</u>	<u>15.82%</u>

(1) The School District's covered payroll is the same for Pension and OPEB.

(2) Includes Surcharge

See accompanying notes to the required supplementary information

2014	2013	2012	2011	2010	2009
\$312,728	\$314,903	\$296,071	\$261,247	\$316,717	\$209,461
<u>(312,728)</u>	<u>(314,903)</u>	<u>(296,071)</u>	<u>(261,247)</u>	<u>(316,717)</u>	<u>(209,461)</u>
<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
\$2,256,335	\$2,275,313	\$2,201,268	\$2,078,340	\$2,339,124	\$2,128,669
<u>13.86%</u>	<u>13.84%</u>	<u>13.45%</u>	<u>12.57%</u>	<u>13.54%</u>	<u>9.84%</u>
\$43,004	\$42,753	\$45,782	\$61,668	\$43,126	\$124,353
<u>(43,004)</u>	<u>(42,753)</u>	<u>(45,782)</u>	<u>(61,668)</u>	<u>(43,126)</u>	<u>(124,353)</u>
<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
<u>1.91%</u>	<u>1.88%</u>	<u>2.08%</u>	<u>2.97%</u>	<u>1.84%</u>	<u>5.84%</u>
<u>15.77%</u>	<u>15.72%</u>	<u>15.53%</u>	<u>15.54%</u>	<u>15.38%</u>	<u>15.68%</u>

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

	2018	2017	2016	2015
Net Pension Liability				
Contractually Required Contribution	\$1,213,740	\$1,172,304	\$1,097,086	\$1,219,952
Contributions in Relation to the Contractually Required Contribution	<u>(1,213,740)</u>	<u>(1,172,304)</u>	<u>(1,097,086)</u>	<u>(1,219,952)</u>
Contribution Deficiency (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
School District Covered Payroll (1)	\$8,669,571	\$8,373,600	\$7,836,329	\$8,713,943
Pension Contributions as a Percentage of Covered Payroll	<u>14.00%</u>	<u>14.00%</u>	<u>14.00%</u>	<u>14.00%</u>
Net OPEB Liability				
Contractually Required Contribution	\$0	\$0	\$0	\$0
Contributions in Relation to the Contractually Required Contribution	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Contribution Deficiency (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
OPEB Contributions as a Percentage of Covered Payroll	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>
Total Contributions as a Percentage of Covered Payroll	<u>14.00%</u>	<u>14.00%</u>	<u>14.00%</u>	<u>14.00%</u>

(1) The School District's covered payroll is the same for Pension and OPEB.

See accompanying notes to the required supplementary information

2014	2013	2012	2011	2010	2009
\$1,101,373	\$1,141,244	\$1,152,489	\$1,048,201	\$1,091,715	\$1,038,022
<u>(1,101,373)</u>	<u>(1,141,244)</u>	<u>(1,152,489)</u>	<u>(1,048,201)</u>	<u>(1,091,715)</u>	<u>(1,038,022)</u>
<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
\$8,472,100	\$8,778,800	\$8,865,300	\$8,063,085	\$8,397,808	\$7,984,785
<u>13.00%</u>	<u>13.00%</u>	<u>13.00%</u>	<u>13.00%</u>	<u>13.00%</u>	<u>13.00%</u>
\$84,721	\$87,788	\$88,653	\$80,631	\$83,978	\$79,848
<u>(84,721)</u>	<u>(87,788)</u>	<u>(88,653)</u>	<u>(80,631)</u>	<u>(83,978)</u>	<u>(79,848)</u>
<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
<u>1.00%</u>	<u>1.00%</u>	<u>1.00%</u>	<u>1.00%</u>	<u>1.00%</u>	<u>1.00%</u>
<u>14.00%</u>	<u>14.00%</u>	<u>14.00%</u>	<u>14.00%</u>	<u>14.00%</u>	<u>14.00%</u>

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East Muskingum Local School District, Ohio

*Notes to Required Supplementary Information
For the Fiscal Year Ended June 30, 2018*

Net Pension Liability

Changes in Assumptions - SERS

For fiscal year 2018, an assumption of 2.5 percent was used for COLA or Ad Hoc Cola. Prior to 2018, an assumption of 3 percent was used.

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

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

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

Changes in Assumptions - STRS

Amounts reported for fiscal year 2018 incorporate changes in assumptions and changes in benefit terms used by STRS in calculating the total pension liability in the latest actuarial valuation. These new assumptions compared with those used in fiscal year 2017 and prior are presented below:

	<u>Fiscal Year 2018</u>	<u>Fiscal Year 2017 and Prior</u>
Inflation	2.50 percent	2.75 percent
Projected salary increases	12.50 percent at age 20 to 2.50 percent at age 65	12.25 percent at age 20 to 2.75 percent at age 70
Investment Rate of Return	7.45 percent, net of investment expenses, including inflation	7.75 percent, net of investment expenses, including inflation
Payroll Increases	3 percent	3.5 percent
Cost-of-Living Adjustments (COLA)	0.0 percent, effective July 1, 2017	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 commences on fifth anniversary of retirement date.

For fiscal year 2018 post-retirement mortality rates for healthy retirees are based on the RP-2014 Annuitant Mortality Table with 50 percent of rates through age 69, 70% of rates between ages 70 and 79, 90 percent of rates between ages 80 and 84, and 100 percent of rates thereafter, projected forward generationally using mortality improvement scale MP-2016. Post-retirement disabled mortality rates are based on the RP-2014

East Muskingum Local School District, Ohio

Notes to Required Supplementary Information

For the Fiscal Year Ended June 30, 2018

Disabled Mortality Table with 90 percent of rates for males and 100 percent of rates for females, projected forward generationally using mortality improvement scale MP-2016. Pre-retirement mortality rates are based on RP-2014 Employee Mortality Table, projected forward generationally using mortality improvement scale MP-2016.

For fiscal year 2017 and prior actuarial valuation, 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 no set back from age 90 and above.

Net OPEB Liability

Changes in Assumptions - SERS

Amounts reported for fiscal year 2018 incorporate changes in key methods and assumptions used in calculating the total OPEB liability as presented below:

Municipal Bond Index Rate:	
Fiscal year 2018	3.56 percent
Fiscal year 2017	2.92 percent
Single Equivalent Interest Rate, net of plan investment expense, including price inflation	
Fiscal year 2018	3.63 percent
Fiscal year 2017	2.98 percent

Changes in Assumptions - STRS

For fiscal year 2018, the discount rate was increased from 3.26 percent to 4.13 percent based on the methodology defined under GASB *Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans (OPEB)* and the long term expected rate of return was reduced from 7.75 percent to 7.45 percent. Valuation year per capita health care costs were updated, and the salary scale was modified. The percentage of future retirees electing each option was updated based on current data and the percentage of future disabled retirees and terminated vested participants electing health coverage were decreased. The assumed mortality, disability, retirement, withdrawal, and future health care cost trend rates were modified along with the portion of rebated prescription drug costs.

Also for fiscal year 2018, the subsidy multiplier for non-Medicare benefit recipients was reduced from 2.1 percent to 1.9 percent per year of service. Medicare Part B premium reimbursements were discontinued for certain survivors and beneficiaries and all remaining Medicare Part B premium reimbursements will be discontinued beginning January 2019.

**EAST MUSKINGUM LOCAL SCHOOL DISTRICT
MUSKINGUM COUNTY**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2018**

FEDERAL GRANTOR <i>Pass Through Grantor</i> Program / Cluster Title	Federal CFDA Number	Pass Through Entity Identifying Number	Total Federal Expenditures
U.S. DEPARTMENT OF AGRICULTURE			
<i>Passed Through Ohio Department of Education</i>			
Child Nutrition Cluster:			
Non-Cash Assistance:			
National School Lunch Program (Food Donation)	10.555	N/A	\$58,300
Cash Assistance:			
School Breakfast Program	10.553	N/A	82,836
National School Lunch Program	10.555	N/A	326,074
Cash Assistance Subtotal			<u>408,910</u>
Total Child Nutrition Cluster			<u>467,210</u>
Total U.S. Department of Agriculture			467,210
U.S. DEPARTMENT OF EDUCATION			
<i>Passed Through Ohio Department of Education</i>			
Title I Grants to Local Educational Agencies	84.010	2017 2018	45,302 <u>261,131</u>
Total Title I Grants to Local Educational Agencies			306,433
Special Education Cluster:			
Special Education_Grants to States	84.027	2017 2018	46,068 <u>328,002</u>
Total Special Education_Grants to States			374,070
Special Education_Preschool Grants	84.173	2018	<u>11,865</u>
Total Special Education Cluster			385,935
Improving Teacher Quality State Grants	84.367	2017 2018	13,286 <u>59,923</u>
Total Improving Teacher Quality State Grants			73,209
Student Support and Academic Enrichment Program	84.424	2018	<u>8,226</u>
Total U.S. Department of Education			<u>773,803</u>
Total Expenditures of Federal Awards			<u><u>\$1,241,013</u></u>

The accompanying notes are an integral part of this Schedule.

**EAST MUSKINGUM LOCAL SCHOOL DISTRICT
MUSKINGUM COUNTY**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
2 CFR 200.510(b)(6)
FOR THE YEAR ENDED JUNE 30, 2018**

NOTE A – BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal award activity of East Muskingum Local School District (the School District) under programs of the federal government for the year ended June 30, 2018. The information on this Schedule is prepared in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the School District, it is not intended to and does not present the financial position, changes in net position, or cash flows of the School District.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the cash basis of accounting. Such expenditures are recognized following the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, wherein certain types of expenditures may or may not be allowable or may be limited as to reimbursement.

NOTE C – INDIRECT COST RATE

The School District has elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

NOTE D - CHILD NUTRITION CLUSTER

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

NOTE E – FOOD DONATION PROGRAM

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

OHIO AUDITOR OF STATE KEITH FABER



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

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

To the Board of Education:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the East Muskingum Local School District, Muskingum County, Ohio (the School District), as of and for the year ended June 30, 2018, 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 February 13, 2019, wherein we noted the School District adopted Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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



Keith Faber
Auditor of State
Columbus, Ohio

February 13, 2019

OHIO AUDITOR OF STATE KEITH FABER



INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO THE MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

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

To the Board of Education:

Report on Compliance for the Major Federal Program

We have audited the East Muskingum Local School District's, Muskingum County, Ohio (the School District), compliance with the applicable requirements described in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could directly and materially affect the East Muskingum Local School District's major federal program for the year ended June 30, 2018. 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 federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to opine on the School District's compliance for the School District's major federal program based on our audit of the applicable compliance requirements referred to above. Our compliance audit followed auditing standards generally accepted in the United States of America; the standards for financial audits included in the Comptroller General of the United States' *Government Auditing Standards*; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). These standards and the Uniform Guidance 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.

53 Johnson Road, The Plains, Ohio 45780-1231
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www.ohioauditor.gov

Opinion on the Major Federal Program

In our opinion, the East Muskingum 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, 2018.

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 the Uniform Guidance, 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 over compliance tests and the results of this testing based on Uniform Guidance requirements. Accordingly, this report is not suitable for any other purpose.



Keith Faber
Auditor of State
Columbus, Ohio

February 13, 2019

**EAST MUSKINGUM LOCAL SCHOOL DISTRICT
MUSKINGUM COUNTY**

**SCHEDULE OF FINDINGS
2 CFR § 200.515
JUNE 30, 2018**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unmodified
(d)(1)(ii)	Were there any material weaknesses in internal control 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 weaknesses in internal control 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 Programs' Compliance Opinion	Unmodified
(d)(1)(vi)	Are there any reportable findings under 2 CFR § 200.516(a)?	No
(d)(1)(vii)	Major Programs (list): <ul style="list-style-type: none"> • Child Nutrition Cluster - CFDA #10.553 and CFDA #10.555 	
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: > \$ 750,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee under 2 CFR § 200.520?	Yes

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

None.

3. FINDINGS FOR FEDERAL AWARDS

None.

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OHIO AUDITOR OF STATE KEITH FABER



EAST MUSKINGUM LOCAL SCHOOL DISTRICT

MUSKINGUM COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MARCH 5, 2019**