

**Berne Union Local School District
Fairfield County, Ohio**

Basic Financial Statements – Cash Basis

June 30, 2016

(with Independent Auditors' Report)



Dave Yost • Auditor of State

Board of Education
Berne Union Local School District
506 North Main Street
Sugar Grove, Ohio 43155

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

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

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

Dave Yost
Auditor of State

February 15, 2017

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INDEPENDENT AUDITORS' REPORT

Board of Education
Berne Union Local School District
506 North Main Street
Sugar Grove, Ohio 43155

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the cash accounting basis Note 2 describes. This responsibility includes determining that the cash accounting basis is acceptable for the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

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

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

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Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the District, as of June 30, 2016, and the respective changes in cash financial position thereof, and the respective budgetary fund comparison for the General Fund, for the year then ended in accordance with the accounting basis described in Note 2.

Accounting Basis

Ohio Administrative Code Section 117-2-03(B) requires the District to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America. We draw attention to Note 2 of the financial statements, which describes the basis applied to these statements, which is a basis other than generally accepted accounting principles. We did not modify our opinion regarding this matter.

Other Matters

Supplemental and Other Information

Our audit was conducted for the purpose of forming our opinions on the financial statements that collectively comprise the District's basic financial statements. Management's Discussion and Analysis, the Schedule of the District's Proportionate Share of the Net Pension Liability, and the Schedule of the District's Contributions are presented for purposes of additional analysis and are not a required part of the basic financial statements

Management's Discussion and Analysis, the Schedule of the District's Proportionate Share of the Net Pension Liability, and the Schedule of the District's Contributions have not been subjected to the audit procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 22, 2016, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Clark, Schaefer, Hackett & Co.

Springfield, Ohio
December 22, 2016

BERNE UNION LOCAL SCHOOL DISTRICT

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2016

(Unaudited)

The discussion and analysis of the Berne Union Local School District's (the District) financial performance provides an overview and analysis of the District's financial activities for the fiscal year ended June 30, 2016. The intent of this discussion and analysis is to look at the District's financial performance as a whole. Readers should also review our notes to the basic financial statements and the financial statements themselves to enhance their understanding of the District's financial performance.

Financial Highlights

- < Total net cash position of the District at June 30, 2016 is \$3,881,683. This balance was comprised of a \$1,368,582 balance in net position amounts restricted for specific purposes and a balance of \$2,513,101 in unrestricted net position.
- < In total, net cash position of governmental activities increased by \$1,695,901, which represents a 78.20 percent increase from 2015. Net cash position of the business-type activities decreased \$5,398 which represents 23.86 percent decrease from 2015.
- < General receipts accounted for \$10,878,227 or 82.05 percent of all receipts of governmental activities. Program specific receipts in the form of charges for services and sales, operating grants and contributions accounted for \$2,379,938 or 17.95 percent of total receipts of \$13,258,165 for the governmental activities.
- < The District had \$11,562,264 in disbursements related to governmental activities; only \$2,379,938 of these disbursements were offset by program specific charges for services and sales, operating grants or contributions. General receipts (primarily taxes and grants and entitlements) of \$10,878,227 were used to provide for the remainder of these programs.
- < The District had \$87,535 in disbursements related to business-type activities; \$82,137 of these disbursements were offset by program specific charges for services and sales.
- < The District recognizes two major governmental funds: the General Fund and the Permanent Improvement Fund. In terms of dollars received and spent, the General Fund is significantly larger than all the other funds of the District combined. The General Fund had \$10,049,364 in receipts and \$9,426,984 in disbursements in fiscal year 2016.

Using this Annual Report

This annual report consists of a series of financial statements and notes to those statements. These statements are presented following the requirements of GASB Statement No. 34, as applicable to the District's cash basis of accounting, and are organized so the reader can understand the District as a financial whole, an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities.

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements are comprised of three components: the government-wide financial statements, fund financial statements and notes to the basic financial statements.

BERNE UNION LOCAL SCHOOL DISTRICT

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2016

(Unaudited)

Reporting the District as a Whole

Government-Wide Financial Statements – Cash Basis

The statement of net position and statement of activities provide information about the activities of the whole District, presenting both an aggregate view of the District's finances and present all cash activity of the District, excluding that of the fiduciary funds. These statements include assets using the cash basis of accounting which is a comprehensive basis of accounting other than generally accepted accounting principles. This basis of accounting takes into account all of the current year's receipts and disbursements based on when cash is received or paid.

The statement of net position presents information on all of the District's cash and net position. Over time, increases and decreases in net position are important because they serve as a useful indicator of whether the financial position of the District as a whole is improving or deteriorating. The cause of this change may be the result of several factors, some financial and some not. Nonfinancial factors include the District's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, required but unfunded educational programs, and other factors. Ultimately, the District's goal is to provide services to our students, not to generate profits as commercial entities do.

The statement of activities presents information showing how the District's net cash position changed during the recent fiscal year. All changes in net cash position are reported as cash is received or paid. Thus, receipts and disbursements are reported in this statement for some items that will only result in cash flows in the current fiscal period.

In both of the government-wide financial statements, the District's activities are divided into two distinct kinds of activities: governmental activities and business-type activities.

Governmental Activities

Most of the District's programs and services are reported here including instructional services, support services and operation of non-instructional services. These services are funded primarily by taxes, tuition and fees, and intergovernmental receipts including federal and state grants and other shared receipts.

Business-Type Activities

These services are provided on a charge for goods or services basis to recover all or a significant portion of the expenses of the goods or services provided. The District preschool operations are reported as business activities.

BERNE UNION LOCAL SCHOOL DISTRICT

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2016
(Unaudited)*

Reporting the District's Most Significant Funds

Fund Financial Statements

Fund financial reports provide detailed information about the District's major funds. The District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the District's most significant funds. The District's major governmental funds are the General and Permanent Improvement Fund.

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objective. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into one of three categories: governmental, proprietary and fiduciary funds.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on individually significant funds (major funds) with all others combined into one column. Such information may be useful in evaluating a government's near-term requirements. These funds are reported using cash basis of accounting.

Proprietary Funds

Proprietary funds have historically operated as enterprise funds using the same basis of accounting as business-type activities; therefore, these statements will essentially match the information provided in the statements for the District as a whole. These funds are reported using the cash basis of accounting.

Fiduciary Funds

The District's fiduciary funds are the private purpose trust and agency funds. We exclude these activities from the District's other financial statements because the District cannot use these cash assets to finance its operations. Private purpose trust funds are held in a trustee capacity for individuals, private organizations, or other governments while agency funds are custodial in nature and do not involve measurement of results of operations. Fiduciary funds use the cash basis of accounting.

BERNE UNION LOCAL SCHOOL DISTRICT

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2016

(Unaudited)

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Government-Wide Financial Analysis

Recall that the statement of net cash position provides the perspective of the District as a whole, showing cash and net cash position. Table 1 provides a summary of the District's net cash position for 2016 compared to fiscal year 2015:

**Table 1
Net Cash Position**

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Cash Assets:						
Cash and Cash Equivalents	\$4,316,207	\$2,168,553	\$17,229	\$22,627	\$4,333,436	\$2,191,180
<i>Total Assets</i>	<u>4,316,207</u>	<u>2,168,553</u>	<u>17,229</u>	<u>22,627</u>	<u>4,333,436</u>	<u>2,191,180</u>
Cash Liabilities:						
Deficit in Pooled Cash and Cash Equivalents with Fiscal Agent	<u>451,753</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>451,753</u>	<u>0</u>
<i>Total Cash Liabilities</i>	<u>451,753</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>451,753</u>	<u>0</u>
<u>Net Cash Position:</u>						
Restricted	1,368,582	271,392	0	0	1,368,582	271,392
Unrestricted	<u>2,495,872</u>	<u>1,897,161</u>	<u>17,229</u>	<u>22,627</u>	<u>2,513,101</u>	<u>1,919,788</u>
<i>Total Net Cash Position</i>	<u>\$3,864,454</u>	<u>\$2,168,553</u>	<u>\$17,229</u>	<u>\$22,627</u>	<u>\$3,881,683</u>	<u>\$2,191,180</u>

Total Cash and Cash Equivalents increased \$1,690,503 from fiscal year 2015 due to the proceeds received from the Energy Conservation Notes and the Lease Purchase Agreement and the increase in State Foundation funding during the year. These increases were offset by an increase in salary and benefits, capital disbursements related to the lease purchase agreement, and increase in claims expenditures for the District's self-insurance program.

The District's largest portion of net position is unrestricted net cash position. Unrestricted net cash position represents resources that may be used to meet the District's ongoing obligations to its students and creditors.

The remaining balance of \$1,368,582 is restricted. The restricted net cash position is subject to external restrictions on how they may be used. The large increase in restricted net cash position resulted from unspent proceeds at the end of the fiscal year related to the lease purchase agreement entered into by the District during the fiscal year.

BERNE UNION LOCAL SCHOOL DISTRICT

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2016
(Unaudited)*

Table 2 shows the changes in net cash position for fiscal year 2016 and provides a comparison to fiscal year 2015.

Table 2
Changes in Net Cash Position

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	2016	2015	2016	2015	2016	2015
<u>Receipts:</u>						
<i>Program Receipts:</i>						
Charges for Services and Sales	\$892,796	\$735,234	\$82,137	\$74,866	\$974,933	\$810,100
Operating Grants and Contributions	1,487,142	1,790,097	0	0	1,487,142	1,790,097
<i>General Receipts:</i>						
Property Taxes	3,071,011	3,000,305	0	0	3,071,011	3,000,305
Income Taxes	1,803,935	1,147,594	0	0	1,803,935	1,147,594
Unrestricted Grants and Entitlements	3,669,746	2,884,132	0	0	3,669,746	2,884,132
Investment Earnings	8,185	4,271	0	0	8,185	4,271
Lease Purchase Agreement Proceeds	1,800,000	178,310	0	0	1,800,000	178,310
Energy Conservation Notes Issued	435,000	0	0	0	435,000	0
Miscellaneous	90,350	83,668	0	0	90,350	83,668
<i>Total Receipts</i>	<u>13,258,165</u>	<u>9,823,611</u>	<u>82,137</u>	<u>74,866</u>	<u>13,340,302</u>	<u>9,898,477</u>

(Continued)

BERNE UNION LOCAL SCHOOL DISTRICT*Management's Discussion and Analysis**For the Fiscal Year Ended June 30, 2016**(Unaudited)*

Table 2
Changes in Net Cash Position

	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
<u>Disbursements</u>						
<i>Program Disbursements:</i>						
<i>Instruction:</i>						
Regular	4,093,940	3,617,789	0	0	4,093,940	3,617,789
Special	1,788,547	1,471,991	0	0	1,788,547	1,471,991
Vocational	71,978	70,764	0	0	71,978	70,764
Student Intervention Services	0	11,071	0	0	0	11,071
<i>Support Services:</i>						
Pupils	303,810	288,582	0	0	303,810	288,582
Instructional Staff	169,359	222,144	0	0	169,359	222,144
Board of Education	44,552	21,363	0	0	44,552	21,363
Administration	1,047,848	914,292	0	0	1,047,848	914,292
Fiscal	478,579	338,735	0	0	478,579	338,735
Business	6,679	8,324	0	0	6,679	8,324
Operation and Maintenance of Plant	1,469,015	786,580	0	0	1,469,015	786,580
Pupil Transportation	743,722	781,497	0	0	743,722	781,497
Central	5,123	5,977	0	0	5,123	5,977
<i>Operation of Non-Instructional Services:</i>						
Food Services	296,359	252,001	0	0	296,359	252,001
Extracurricular Activities	261,194	208,507	0	0	261,194	208,507
Capital Outlay	412,391	178,310	0	0	412,391	178,310
<i>Debt Service:</i>						
Principal	288,840	319,969	0	0	288,840	319,969
Interest and Fiscal Charges	80,328	22,887	0	0	80,328	22,887
Preschool	0	0	87,535	132,976	87,535	132,976
Total Disbursements	11,562,264	9,520,783	87,535	132,976	11,649,799	9,653,759
Changes In Net Cash Position	1,695,901	302,828	-5,398	-58,110	1,690,503	244,718
Net Cash Position -Beginning of Year	2,168,553	1,865,725	22,627	80,737	2,191,180	1,946,462
Net Cash Position -End of Year	\$3,864,454	\$2,168,553	\$17,229	\$22,627	\$3,881,683	\$2,191,180

BERNE UNION LOCAL SCHOOL DISTRICT

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2016
(Unaudited)*

The most significant governmental activities program disbursements for the District are Regular Instruction, Special Instruction, Operation and Maintenance of Plant, Administration, and Pupil Transportation. These programs account for 79.08 percent of the total governmental activities. Regular Instruction, which accounts for 35.41 percent of the total, represents costs associated with providing general educational services. Special Instruction, which represents 15.47 percent of the total, represents costs associated with providing educational services for handicapped, disadvantaged and other special needs students. Operation and Maintenance of Plant, which represents 12.71 percent of the total, represents costs associated with operating and maintaining the District's facilities. Administration, which represents 9.06 percent of the total, represents costs associated with the overall administrative responsibility for each building and the District as a whole. Pupil Transportation, which represents 6.43 percent of the total cost, represents costs associated with transporting students to and from school, as well as to activities.

As noted previously, the net cash position for the governmental activities increased \$1,695,901 or 78.20 percent. This is an increase from last year when net cash position increased \$302,828 or 16.23 percent. For the governmental activities, total receipts increased \$3,434,554 or 34.96 percent from last year and disbursements increased \$2,041,481 or 21.44 percent from last year.

The District's governmental activities had a decrease in program receipts of \$145,393, as well as an increase in general receipts of \$3,579,947. The increase in general receipts is primarily due to an increase in unrestricted grants (State Foundation), proceeds from energy conservation notes and lease purchase agreement, and income taxes. Fiscal year 2016 was the first full year of collection of income tax receipts at the 2 percent rate rather than the previous 1 percent rate. This increase, as well as changing the taxable base from traditional to earned, was approved by voters in 2014 and become effective as of January 1, 2015.

The total disbursements for governmental activities increased primarily from an increase of \$682,435 in operation and maintenance of plant, \$476,151 in regular instruction, and \$316,556 in special instruction disbursements. Increases in wages and benefits disbursements, disbursements related to projects financed with the energy conservation and lease purchase, and increased claims disbursements reported for the fiscal year.

The majority of the funding for the most significant programs indicated above is from tax receipts (property and income) and unrestricted grants and entitlements. Tax and unrestricted grants and entitlements receipts account for 64.45 percent of total receipts for governmental activities.

The net position for the business-type activities decreased \$5,398. The business-type activities had \$82,137 of program receipts and \$87,535 of program disbursements. For the business-type activities, total receipts increased \$7,271 or 9.71 percent from last year and disbursements decreased \$45,441 or 34.17 percent from last year.

Governmental Activities

Over the past several fiscal years, the District has remained in stable financial condition. The District was facing a potential deficit (dependent upon the State's Biennium Budget for Fiscal Year 2007) in fiscal year 2007 and would have been placed in Fiscal Caution by the Ohio Department of Education. To avoid the potential deficit, in May 2007, the Board of Education placed an income tax levy on the ballot. The voters approved the 1 percent income tax levy which was replaced by a 2.0 percent earned income tax replacement levy in May 2014.

The District is heavily dependent on property taxes and intergovernmental revenue and, like most Ohio schools, is hampered by a lack of revenue growth. Property taxes made up percent and intergovernmental revenue (unrestricted and operating grants) made up percent of the total revenue for the governmental activities in fiscal year 2016.

BERNE UNION LOCAL SCHOOL DISTRICT

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2016
(Unaudited)*

The Ohio Legislature passed H.B. 920 (1976) and changed the way property taxes function in the State. The overall revenue generated by a levy will not increase solely as a result of inflation. As an example, the District would receive from a home valued at \$100,000 and taxed at 1.0 mill, \$35.00 annually. If three years later the home were reappraised and the value increased to \$200,000 (and this increase in value is comparable to other property owners) the effective tax rate would become 0.5 mill and the District would still receive \$35.00 annually. Therefore, the District must regularly return to the voters to maintain a constant level of service.

The District's intergovernmental receipts consist of school foundation basic allowance, homestead and rollback property tax allocation, and federal and state grants. During fiscal year 2016, the District received \$4,125,438 through the State's foundation program, which represents 31.11 percent of the total receipts for the governmental activities. The District relies heavily on this state funding to operate at the current levels of service.

Instruction accounts for 51.50 percent of governmental activities program disbursements. Support services disbursements make up 36.92 percent of governmental activities program disbursements. The statement of activities shows the cost of program services and charges for services and grants offsetting those services.

Business-Type Activities

Business-type activities include the Preschool activities. This program had program receipts of \$82,137 and disbursements of \$87,535 for fiscal year 2016. All of the program receipts were from tuition and fees.

Table 3 shows, the total cost of services and the net cost of services for fiscal year 2016 and comparison to fiscal year 2015. That is, it identifies the cost of these services supported by tax revenue and unrestricted State entitlements.

Table 3
Net Cost of Activities

	Total Cost of Services		Net Cost of Services	
	2016	2015	2016	2015
<u>Program Disbursements:</u>				
<i>Governmental Activities:</i>				
Instruction	\$5,954,465	\$5,171,615	\$4,447,652	\$3,670,426
Support Services	4,268,687	3,367,494	3,814,065	2,732,768
Operation of Non-Instructional Services	296,359	252,001	(21,230)	(58,677)
Extracurricular Activities	261,194	208,507	160,280	129,769
Capital Outlay	412,391	178,310	412,391	178,310
Principal	288,840	319,969	288,840	319,969
Interest and Fiscal Charges	80,328	22,887	80,328	22,887
<i>Business-Type Activities:</i>				
Preschool	87,535	132,976	5,398	58,110
Total Disbursements	<u>\$11,649,799</u>	<u>\$9,653,759</u>	<u>\$9,187,724</u>	<u>\$7,053,562</u>

BERNE UNION LOCAL SCHOOL DISTRICT

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2016
(Unaudited)*

The District's Funds

The District's governmental funds are accounted for using the cash basis of accounting. (See Note 2 for discussion of significant accounting policies). All governmental funds had total receipts of \$13,258,165 and disbursements of \$11,115,668.

The total fund balance of governmental funds increased by \$2,142,497. The increase in fund balance for the year was most significant in the Permanent Improvement Fund where there was an increase of \$1,098,730, reflecting receipts that exceeded disbursements, which is the result of an increase in receipts and a decrease in disbursements. The increase in receipts is due to the energy conservation notes issued.

Budget Highlights - General Fund

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

During the course of fiscal year 2016, the District amended its General Fund budget only slightly from the original budget. The District uses a modified site-based budget technique that is designed to control site budgets while providing building administrators and supervisor's flexibility for site management.

The District prepares and monitors a detailed cashflow plan for the General Fund. Actual cashflow is compared to monthly and year-to-date estimates, and a monthly report is prepared for top management and the Board of Education.

For the General Fund, the final budget basis operating receipts were \$9,997,368 representing no change from the original budget estimates. For the General Fund, the final budget basis operating disbursements were \$9,358,074 representing only a slight change from the original budget estimates. Ending actual budgetary basis fund balance was \$2,018,488 more than what was anticipated at the beginning of the fiscal year.

Debt Administration

At June 30, 2016, the District had \$2,425,682 in general debt obligation outstanding with \$302,535 due within one year. Table 4 summarizes the general obligation debt outstanding for fiscal year 2016 compared to fiscal year 2015.

Table 4
Outstanding Debt, Governmental Activities at Year End

<u>Purpose</u>	<u>2016</u>	<u>2015</u>
Energy Conservation Loan	\$243,847	\$362,317
Energy Conservation Notes	410,805	-
Lease Purchase Agreement	1,711,608	-
Capital Lease	59,422	117,205
Total Long-Term Obligations	<u>\$2,425,682</u>	<u>\$479,522</u>

More detailed information pertaining to the District's long-term debt activity can be found in Note 12 of the notes to the basic financial statements.

BERNE UNION LOCAL SCHOOL DISTRICT

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2016

(Unaudited)

Current Issues

Although considered a mid-wealth district, Berne Union Local School District is financially stable, and has been over the past several years. As indicated in the preceding financial information, the District is dependent on property taxes. Property tax revenue does not increase solely as a result of inflation. Therefore, in the long-term, the current program and staffing levels will be dependent on increased funding to meet inflation. Careful financial planning has permitted the District to provide a quality education for our students.

The Berne Union Local School District does not anticipate any meaningful growth or loss in revenue as a result of these changes. However, with the passage of HB1 and the evidence based model plan, Berne Union does anticipate an increase in expenditure. Based on these factors, the Board of Education and the administration of the District must maintain careful financial planning and prudent fiscal management in order to preserve the financial stability of the District.

The District voters approved a 10 year earned income tax replacement levy of 2 percent in May 2014, for tax years 2015-2024. In fiscal year 2016 this generated \$1,803,935 in receipts for general operations, which is inflated due to the blending of the old and new rates.

Currently, unpaid property taxes in the Berne Union School District continues to be an issue resulting in a substantial loss of revenue. The amount of money we spend per student is \$1,200 less than the state average. All funding for new school bus purchases have been eliminated by the Ohio Department of Education through House Bill 1. The District has updated the bus fleet over the past few years. The District purchased two new buses during fiscal year 2013 and fiscal year 2015 and will purchased two additional new buses during fiscal year 2017. Prior to these purchases, the last new bus purchase was in the year 2007, and before that, it was in the year 2001.

The Ohio Legislature biennial budget for 2012 and 2013 included what they called a "Bridge" funding method. It was called that because it was intended to be a bridge to a completely new funding formula sometime in 2013 or 2014. With the passage of a new State Budget in late-June 2013, Ohio schools have their 4th new funding method since fiscal year 2009. The new formula completely changed the way in which Ohio public schools are funded. There are nine separate funding components, each uses a slightly different basis and enrollment in its calculation. The overriding change however there is no longer a property valuation and millage based local share or "charge-off". A district's local share is determined first and then used throughout the various components. During this two-year budget, there is still a minimum guarantee amount based on a district funding in fiscal year 2013. Added is now a "cap" or maximum increase from one year to the next. In fiscal year 2014 the cap is 6.25% which increased to 10.5% in fiscal year 2015. A new state two-year budget began in fiscal year 2016. It is currently our understanding that the existing formula may be modified but we are not expecting a completely new funding model.

Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it received. If you have any questions about this report or need additional information contact Kirk Grandy, Treasurer of Berne Union Local School Board of Education, 506 North Main Street, Sugar Grove, Ohio 43155.

BERNE UNION LOCAL SCHOOL DISTRICT

Statement of Net Position - Cash Basis

June 30, 2016

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
<u>Cash Assets:</u>			
Equity in Pooled Cash and Cash Equivalents	\$4,316,207	\$17,229	\$4,333,436
<i>Total Assets</i>	<u>4,316,207</u>	<u>17,229</u>	<u>4,333,436</u>
<u>Cash Liabilities:</u>			
Deficit in Pooled Cash and Cash Equivalents with Fiscal Agent	451,753	0	451,753
<i>Total Liabilities</i>	<u>451,753</u>	<u>0</u>	<u>451,753</u>
<u>Net Cash Position:</u>			
<i>Restricted for:</i>			
Capital Improvements	1,098,730	0	1,098,730
Set Asides	12,073	0	12,073
Debt Service	45,014	0	45,014
Food Service Operations	158,268	0	158,268
Facilities Maintenance	36,796	0	36,796
Other Purposes	17,701	0	17,701
Unrestricted	<u>2,495,872</u>	<u>17,229</u>	<u>2,513,101</u>
<i>Total Net Cash Position</i>	<u><u>\$3,864,454</u></u>	<u><u>\$17,229</u></u>	<u><u>\$3,881,683</u></u>

See accompanying notes to the basic financial statements.

BERNE UNION LOCAL SCHOOL DISTRICT

Statement of Activities - Cash Basis
For the Fiscal Year Ended June 30, 2016

	Program Cash Receipts			Net (Cash Disbursements) Cash Receipts and Changes in Net Cash Position		
	Cash Disbursements	Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities	Business-Type Activities	Total
<u>Governmental Activities:</u>						
<i>Instruction:</i>						
Regular	\$4,093,940	\$670,570	\$70,889	(\$3,352,481)	\$0	(\$3,352,481)
Special	1,788,547	0	759,481	(1,029,066)	0	(1,029,066)
Vocational	71,978	0	5,873	(66,105)	0	(66,105)
<i>Support Services:</i>						
Pupils	303,810	0	0	(303,810)	0	(303,810)
Instructional Staff	169,359	0	21,672	(147,687)	0	(147,687)
Board of Education	44,552	0	0	(44,552)	0	(44,552)
Administration	1,047,848	0	18,604	(1,029,244)	0	(1,029,244)
Fiscal	478,579	0	0	(478,579)	0	(478,579)
Business	6,679	0	0	(6,679)	0	(6,679)
Operation and Maintenance of Plant	1,469,015	0	4,568	(1,464,447)	0	(1,464,447)
Pupil Transportation	743,722	0	406,178	(337,544)	0	(337,544)
Central	5,123	0	3,600	(1,523)	0	(1,523)
<i>Operation of Non-Instructional Services:</i>						
Food Service	296,359	121,438	196,151	21,230	0	21,230
Extracurricular Activities	261,194	100,788	126	(160,280)	0	(160,280)
Capital Outlay	412,391	0	0	(412,391)	0	(412,391)
<i>Debt Service:</i>						
Principal	288,840	0	0	(288,840)	0	(288,840)
Interest and Fiscal Charges	80,328	0	0	(80,328)	0	(80,328)
Total Governmental Activities	11,562,264	892,796	1,487,142	(9,182,326)	0	(9,182,326)
<u>Business-Type Activities:</u>						
Preschool	87,535	82,137	0	0	(5,398)	(5,398)
Total Business-Type Activities	87,535	82,137	0	0	(5,398)	(5,398)
Totals	\$11,649,799	\$974,933	\$1,487,142	(9,182,326)	(5,398)	(9,187,724)
<u>General Cash Receipts:</u>						
<i>Property Taxes Levied for:</i>						
General Purposes				3,027,958	0	3,027,958
Capital Outlay				43,053	0	43,053
Income Taxes Levied for General Purposes				1,803,935	0	1,803,935
Grants and Entitlements not Restricted to Specific Programs				3,669,746	0	3,669,746
Investment Earnings				8,185	0	8,185
Energy Conservation Notes Issued				435,000	0	435,000
Lease Purchase Agreement Proceeds				1,800,000	0	1,800,000
Miscellaneous				90,350	0	90,350
Total General Cash Receipts				10,878,227	0	10,878,227
Changes in Net Cash Position				1,695,901	(5,398)	1,690,503
<i>Net Cash Position at Beginning of Year</i>				2,168,553	22,627	2,191,180
<i>Net Cash Position at End of Year</i>				\$3,864,454	\$17,229	\$3,881,683

See accompanying notes to the basic financial statements.

BERNE UNION LOCAL SCHOOL DISTRICT
Statement of Cash Basis Assets and Fund Cash Balances
Governmental Funds
June 30, 2016

	General	Permanent Improvement	Other Governmental Funds	Total Governmental Funds
<u>Cash Assets:</u>				
Equity in Pooled Cash and Cash Equivalents	\$2,837,057	\$1,098,730	\$257,779	\$4,193,566
<u>Restricted Cash Assets:</u>				
Equity in Pooled Cash and Cash Equivalents	12,073	0	0	12,073
<i>Total Cash Assets</i>	<u>\$2,849,130</u>	<u>\$1,098,730</u>	<u>\$257,779</u>	<u>\$4,205,639</u>
<u>Fund Cash Balances:</u>				
Nonspendable	\$1,310	\$0	\$0	1,310
Restricted	12,073	1,098,730	257,779	1,368,582
Assigned	2,835,747	0	0	2,835,747
Unassigned	0	0	0	0
<i>Total Fund Cash Balances</i>	<u>\$2,849,130</u>	<u>\$1,098,730</u>	<u>\$257,779</u>	<u>\$4,205,639</u>

See accompanying notes to the basic financial statements.

BERNE UNION LOCAL SCHOOL DISTRICT
*Reconciliation of Total Governmental Fund Cash Balances to
Net Cash Position of Governmental Activities
June 30, 2016*

Total Governmental Fund Cash Balances \$4,205,639

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

An internal service fund is used by management to charge the costs of insurance to individual funds. The cash deficit of the internal service fund is included in governmental activities in the statement of net position.

(341,185)

Net Cash Position of Governmental Activities

\$3,864,454

See accompanying notes to the basic financial statements.

BERNE UNION LOCAL SCHOOL DISTRICT
Statement of Cash Receipts, Cash Disbursements and Changes in Fund Cash Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2016

	General	Permanent Improvement	Other Governmental Funds	Total Governmental Funds
<u>Cash Receipts:</u>				
Property Taxes	\$3,027,958	\$0	\$43,053	\$3,071,011
Income Tax	1,803,935	0	0	1,803,935
Intergovernmental	4,444,000	0	712,735	5,156,735
Interest	8,185	0	0	8,185
Tuition and Fees	670,570	0	0	670,570
Extracurricular Activities	8,625	0	92,163	100,788
Gifts and Donations	0	0	153	153
Customer Sales and Services	0	0	121,438	121,438
Miscellaneous	86,091	0	4,259	90,350
<i>Total Cash Receipts</i>	<u>10,049,364</u>	<u>0</u>	<u>973,801</u>	<u>11,023,165</u>
<u>Cash Disbursements:</u>				
<i>Current:</i>				
<i>Instruction:</i>				
Regular	3,815,322	0	84,347	3,899,669
Special	1,324,152	0	397,017	1,721,169
Vocational	71,978	0	0	71,978
<i>Support Services:</i>				
Pupils	293,116	0	0	293,116
Instructional Staff	120,905	0	32,662	153,567
Board of Education	44,552	0	0	44,552
Administration	961,797	0	19,714	981,511
Fiscal	411,439	48,525	862	460,826
Business	6,679	0	0	6,679
Operation and Maintenance of Plant	742,616	652,745	52,192	1,447,553
Pupil Transportation	691,025	0	0	691,025
Central	1,523	0	3,600	5,123
<i>Operation of Non-Instructional Services:</i>				
Food Service Operations	0	0	296,359	296,359
Extracurricular Activities	160,321	0	100,661	260,982
Capital Outlay	412,391	0	0	412,391
<i>Debt Service:</i>				
Principal Retirement	288,840	0	0	288,840
Interest and Fiscal Charges	80,328	0	0	80,328
<i>Total Cash Disbursements</i>	<u>9,426,984</u>	<u>701,270</u>	<u>987,414</u>	<u>11,115,668</u>
<u>Other Financing Sources:</u>				
Energy Conservation Notes Issued	435,000	0	0	435,000
Lease Purchase Agreement Proceeds	0	1,800,000	0	1,800,000
<i>Total Other Financing Sources</i>	<u>435,000</u>	<u>1,800,000</u>	<u>0</u>	<u>2,235,000</u>
<i>Net Changes in Fund Cash Balances</i>	1,057,380	1,098,730	(13,613)	2,142,497
<i>Fund Cash Balances at Beginning of Year</i>	<u>1,791,750</u>	<u>0</u>	<u>271,392</u>	<u>2,063,142</u>
<i>Fund Cash Balances at End of Year</i>	<u>\$2,849,130</u>	<u>\$1,098,730</u>	<u>\$257,779</u>	<u>\$4,205,639</u>

See accompanying notes to the basic financial statements.

BERNE UNION LOCAL SCHOOL DISTRICT
*Reconciliation of the Statement of Cash Receipts, Cash Disbursements and Changes
in Fund Cash Balances of Governmental Funds to the Statement of Activities
For the Fiscal Year Ended June 30, 2016*

Net Change in Fund Cash Balances - Total Governmental Funds \$2,142,497

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

The internal service fund used by management to charge the costs of insurance to individual funds is not reported in the district-wide statement of activities. Governmental fund disbursements and the related internal service fund receipts are eliminated. The net receipts (disbursements) of the internal service fund is allocated among the governmental activities.

(446,596)

Change in Net Cash Position of Governmental Activities

\$1,695,901

See accompanying notes to the basic financial statements.

BERNE UNION LOCAL SCHOOL DISTRICT
Statement of Receipts, Disbursements and Changes
in Cash Basis Fund Balance - Budget and Actual (Budget Basis)
General Fund
For the Fiscal Year Ended June 30, 2016

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
<u>Receipts:</u>				
Property Taxes	\$3,027,958	\$3,027,958	\$3,027,958	\$0
Income Tax	1,803,935	1,803,935	1,803,935	0
Intergovernmental	4,431,845	4,431,845	4,444,000	12,155
Interest	7,625	7,625	8,185	560
Tuition and Fees	663,266	663,266	663,266	0
Extracurricular Activities	8,625	8,625	8,625	0
Miscellaneous	54,114	54,114	54,114	0
<i>Total Receipts</i>	<u>9,997,368</u>	<u>9,997,368</u>	<u>10,010,083</u>	<u>12,715</u>
<u>Disbursements:</u>				
<i>Current:</i>				
<i>Instruction:</i>				
Regular	3,617,680	3,617,680	3,990,733	(373,053)
Special	1,091,302	1,091,302	1,357,195	(265,893)
Vocational	73,412	73,412	71,978	1,434
<i>Support Services:</i>				
Pupils	302,061	302,061	303,528	(1,467)
Instructional Staff	141,866	141,866	125,510	16,356
Board of Education	22,638	22,638	44,990	(22,352)
Administration	887,653	892,653	938,946	(46,293)
Fiscal	375,339	375,339	424,216	(48,877)
Business	13,656	13,656	11,894	1,762
Operation and Maintenance of Plant	1,033,917	1,033,917	1,019,405	14,512
Pupil Transportation	831,311	831,311	936,794	(105,483)
Central	1,494	1,494	1,523	(29)
Extracurricular Activities	156,577	156,577	167,235	(10,658)
Capital Outlay	435,000	435,000	435,000	0
<i>Debt Service:</i>				
Principal Retirement	288,840	288,840	288,840	0
Interest and Fiscal Charges	80,328	80,328	80,328	0
<i>Total Disbursements</i>	<u>9,353,074</u>	<u>9,358,074</u>	<u>10,198,115</u>	<u>(840,041)</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	644,294	639,294	(188,032)	(827,326)
<u>Other Financing Sources (Uses):</u>				
Energy Conservation Notes Issued	435,000	435,000	435,000	0
Transfers Out	(2,850,814)	(2,845,814)	0	2,845,814
<i>Total Other Financing Sources (Uses)</i>	<u>(2,415,814)</u>	<u>(2,410,814)</u>	<u>435,000</u>	<u>2,845,814</u>
<i>Net Change in Fund Balances</i>	(1,771,520)	(1,771,520)	246,968	2,018,488
<i>Fund Balance at Beginning of Year</i>	1,388,064	1,388,064	1,388,064	0
<i>Prior Year Encumbrances Appropriated</i>	383,458	383,458	383,458	0
<i>Fund Balance at End of Year</i>	<u>\$2</u>	<u>\$2</u>	<u>\$2,018,490</u>	<u>\$2,018,488</u>

See accompanying notes to the basic financial statements.

BERNE UNION LOCAL SCHOOL DISTRICT

Statement of Fund Net Position - Cash Basis

Proprietary Funds

June 30, 2016

	<u>Business-Type Activities</u>	<u>Governmental Activities</u>
	<u>Other Enterprise</u>	<u>Internal Service</u>
<u>Cash Assets:</u>		
<i>Current Cash Assets:</i>		
Equity in Pooled Cash and Cash Equivalents	<u>\$17,229</u>	<u>\$110,568</u>
<i>Total Cash Assets</i>	<u>17,229</u>	<u>110,568</u>
<u>Cash Liabilities:</u>		
<i>Current Cash Liabilities:</i>		
Deficit in Pooled Cash and Cash Equivalents with Fiscal Agent	<u>0</u>	<u>451,753</u>
<i>Total Cash Liabilities</i>	<u>0</u>	<u>451,753</u>
<u>Net Cash Position:</u>		
Unrestricted (Deficit)	<u>17,229</u>	<u>(341,185)</u>
<i>Total Net Cash Position</i>	<u><u>\$17,229</u></u>	<u><u>(\$341,185)</u></u>

See accompanying notes to the basic financial statements.

BERNE UNION LOCAL SCHOOL DISTRICT
Statement of Cash Receipts, Cash
Disbursements and Changes in Cash Basis Fund Net Position
Proprietary Funds
For the Fiscal Year Ended June 30, 2016

	Business-Type Activities	Governmental Activities
	Other Enterprise	Internal Service
<u>Operating Cash Receipts:</u>		
Tuition	\$82,137	\$0
Charges for Services		1,287,788
Other Receipts	0	22,195
<i>Total Operating Cash Receipts</i>	82,137	1,309,983
<u>Operating Cash Disbursements:</u>		
Salaries	50,426	0
Fringe Benefits	10,728	0
Purchased Services	1,348	328,734
Materials and Supplies	25,033	0
Claims	0	1,427,906
<i>Total Operating Cash Disbursements</i>	87,535	1,756,640
<i>Operating Loss</i>	(5,398)	(446,657)
<u>Nonoperating Revenue:</u>		
Interest Earnings	0	61
<i>Change in Net Position</i>	(5,398)	(446,596)
<i>Net Cash Position at Beginning of Year</i>	22,627	105,411
<i>Net Cash Position at End of Year</i>	\$17,229	(\$341,185)

See accompanying notes to the basic financial statements.

BERNE UNION LOCAL SCHOOL DISTRICT
Statement of Fiduciary Net Position - Cash Basis
Fiduciary Funds
June 30, 2016

	Private Purpose Trust	Agency
<u>Cash Assets:</u>		
Equity in Pooled Cash and Cash Equivalents	\$1,268	\$21,342
<u>Net Cash Position:</u>		
Held in Trust for Scholarships	1,268	0
Unrestricted	0	21,342
<i>Total Net Cash Position</i>	\$1,268	\$21,342

See accompanying notes to the basic financial statements.

BERNE UNION LOCAL SCHOOL DISTRICT
Statement of Changes in Fiduciary Net Position - Cash Basis
Fiduciary Fund
For the Fiscal Year Ended June 30, 2016

	Private Purpose Trust
<i>Additions</i>	\$0
<i>Deductions</i>	0
<i>Change in Net Cash Position</i>	0
<i>Net Cash Position at Beginning of Year</i>	1,268
<i>Net Cash Position at End of Year</i>	\$1,268

See accompanying notes to the basic financial statements.

BERNE UNION LOCAL SCHOOL DISTRICT

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016*

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

Description of the School District

Berne Union Local School District (the District) is a body politic and corporate organized under Article VI, Sections 2 and 3 of the Constitution of the State of Ohio. The District is a local school district as defined by Ohio Revised Code Section 3311.03. The District operates under a locally-elected Board form of government consisting of five members elected at-large for staggered four year terms. The District provides educational services as authorized by state statute and/or federal guidelines.

The District was established through the consolidation of existing land areas and school districts. It is staffed by 39 non-certificated employees, 60 certificated full-time teaching personnel and 4 administrative employees who provide services to 960 students and other community members.

Reporting Entity

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

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

The District is associated with two jointly governed organizations: the Metropolitan Education Council (MEC) and the South Central Ohio Insurance Consortium (SCOIC). The District is also associated with one insurance purchasing pool: Ohio School Boards Association Worker's Compensation Group Rating Program. These organizations are presented in Notes 17 and 18 to the basic financial statements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the District have been prepared in conformity with a comprehensive basis of accounting (OCBOA) other than generally accepted accounting principles as applied to governmental units. As discussed further in Note 2.D., these financial statements are presented on the cash basis of accounting. The cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements. In cases where these cash basis statements contain items that are the same as, or similar to, those items in financial statements prepared in conformity with GAAP, similar informative disclosures are provided. The more significant of the District's accounting policies are described below.

BERNE UNION LOCAL SCHOOL DISTRICT

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016*

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

A. Basis of Presentation

The District's basic financial statement consists of government-wide financial 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 District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. Internal service fund activity is eliminated to avoid "doubling up" receipts and disbursements. The statements distinguish between those activities of the District that are governmental and those that are considered business-type activities.

The statement of net position presents the cash position of the governmental activities and business-type activities of the District at year-end. The statement of activities presents a comparison between direct disbursements and program receipts for each program or function of the District's governmental activities and business-type activities. Direct disbursements are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program receipts 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. Receipts which are not classified as program receipts are presented as general receipts of the District, with certain limited exceptions. The comparison of direct disbursements with program receipts identifies the extent to which each business segment or governmental function is self-financing or draws from the general receipts of the District.

Fund Financial Statements

During the year, the District segregates transactions related to certain 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 District at this more detailed level. The focus of governmental and enterprise fund financial statements is on major funds rather than reporting by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by type.

B. Fund Accounting

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

BERNE UNION LOCAL SCHOOL DISTRICT

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016*

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

Governmental Funds

Governmental funds are those through which most governmental functions of the District are financed. Governmental funds focus on the sources, uses, and balances of current financial resources. The difference between governmental fund assets and liabilities is reported as fund cash balance.

The following is the District's major governmental funds:

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

Permanent Improvement Fund- This fund is used to account for financial resources to be used for the acquisition, construction or improvement of capital facilities. The primary source of funding for this fund is from the issuance of energy conservation notes.

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

Proprietary Funds

Proprietary funds may be classified as either enterprise or internal service funds. Enterprise funds may be used to account for any activities for which a fee is charged to external users for goods or services. The only enterprise fund of the District accounts for a preschool program which is funded through tuition fees charged. The internal service fund accounts for the financing of services provided by one department or agency to other departments or agencies of the District, or to other governments, on a cost reimbursement basis. The only internal service fund of the District accounts for a self-insurance program which provides health and dental benefits to employees.

Fiduciary Funds

The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds, and agency funds. Trust funds are used to account for assets held by the District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the District's own programs. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The District's fiduciary funds include one private purpose trust fund that accounts for monies donated to be used for scholarships; and an agency fund which is used to account for student managed activities.

C. Measurement Focus

Government-Wide Financial Statements

The government-wide financial statements are prepared measuring receipts and disbursements when cash is received or paid.

BERNE UNION LOCAL SCHOOL DISTRICT

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016*

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

Fund Financial Statements

Only cash is included on the balance sheet. The statement of cash receipts, cash disbursements and changes in fund cash balance reports on the sources (i.e., receipts and other financing sources) and uses (i.e., disbursements and other financing uses) of cash.

D. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide, governmental funds, proprietary and fiduciary fund financial statements are prepared using the cash basis of accounting. The cash basis of accounting is a comprehensive basis of accounting other than GAAP. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred.

These statements include adequate disclosure of material matters, in accordance with the basis of accounting described in the preceding paragraph.

E. Cash and Cash Equivalents

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

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the General Fund during fiscal year 2016 amounted to \$8,185, which includes \$2,401 assigned from other 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 District are presented on the financial statements as cash equivalents.

F. Inventory

On the cash-basis of accounting, inventories of supplies and food service items are reported as disbursements when purchased.

G. Restricted Assets

Assets are reported as restricted when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors or laws of other governments or imposed by enabling legislation.

H. Capital Assets

Acquisitions of property, plant and equipment are recorded as disbursements when paid. The financial statements do not report these assets.

BERNE UNION LOCAL SCHOOL DISTRICT

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016*

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

I. Cash Liabilities

As of June 30, 2016 the District had a deficit \$451,753 position in the pooled cash and cash equivalents with South Central Ohio Insurance Consortium (SCOIC) associated with the District's self-funded insurance program due to large claims incurred during the fiscal year. See Note 8 for more information.

J. Compensated Absences

In certain circumstances, such as upon leaving employment, employees are entitled to cash payments for unused leave. Unpaid leave is not reflected as a liability under the District's cash basis of accounting.

K. Long-Term Obligations

These cash basis financial statements do not report liabilities for bonds and other long-term obligations. These statements report proceeds of debt when cash is received and debt service disbursements for debt principal and interest payments.

L. Pension

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

M. Net Cash Position

Net cash position are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors or laws, or regulations of other governments.

The District first applies restricted resources when a disbursement is paid for purposes for which both restricted and unrestricted net position is available.

N. Fund Cash Balance

In the fund financial statements, governmental funds report aggregate amounts for five classifications of fund balances based on the constraints imposed on the use of these resources. Fund balances of the governmental funds are classified as follows:

Nonspendable – amounts that cannot be spent because they are either not in a spendable form or because they are legally or contractually required to be maintained intact.

Restricted – amounts that can be spent only for specific purposes because either (a) constraints imposed by law through constitutional provisions, charter requirements or enabling legislation; or (b) constraints that are externally imposed by creditors, grantors, contributors, or laws or regulations of other governments.

BERNE UNION LOCAL SCHOOL DISTRICT

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016*

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

Committed – amounts that can only be used for specific purposes pursuant to constraints imposed by formal resolutions of the Board of Education – the District’s highest level of decision making authority. Those committed amounts cannot be used for any other purpose unless the Board of Education removes the specified use by taking the same type of action as when imposing the commitment. This classification also includes contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned – amounts constrained by the District’s “intent” to be used for specific purposes, but are neither restricted nor committed. The Board of Education, Superintendent and Treasurer have the authority to assign amount to be used for specific purposes. Assigned fund balances include all remaining amounts (except negative balances) that are reported in governmental funds, other than the General Fund, that are not classified as nonspendable and are neither restricted nor committed.

Unassigned – this is the residual classification for the General Fund. It is also used to report negative fund balances in other governmental funds.

When expenditures are incurred for purposes for which both restricted and unrestricted fund balances are available, the District considers restricted funds to have been spent first. When expenditures are incurred for which committed, assigned or unassigned fund balances are available, the District considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the Board of Education has provided otherwise in its commitment or assignment actions.

O. Operating Receipts and Disbursements

Operating receipts are those receipts that are generated directly from the primary activity of the proprietary fund. For the District, these receipts are tuition for the preschool program and charges for services for the self-insurance program. Operating disbursements are necessary costs incurred to run the preschool and to provide the self-insurance service that are the primary activities of the funds. Receipts and disbursements not meeting these definitions are reported as nonoperating.

P. Interfund Transactions

Exchange transactions between funds are reported as receipts in the seller funds and as disbursements in the purchaser funds. Flows of cash or goods from one 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 disbursements to the funds that initially paid for them are not presented on the financial statements.

Q. Budgetary Process

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

BERNE UNION LOCAL SCHOOL DISTRICT

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016*

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

the fund level of expenditures, the District has elected to present the budgetary statement for the general fund at the fund and function level of expenditures in the basic financial statements. Any revisions that alter the total of any fund appropriations must be approved by the Board of Education.

The certificate of estimated resources may be amended during the year if projected increases or decreases in receipts are identified by the District Treasurer. The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts in the certificate when the appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts in the final amended certificate issued during fiscal year 2016.

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

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principles

For fiscal year 2016, the District implemented GASB Statement No. 72, "Fair Value Measurement and Application", GASB Statement No. 73, "Accounting and Financial Reporting for Pensions and Related Assets that are not within the Scope of GASB 68, and Amendments to Certain Provisions of GASB Statements 67 and 38", and GASB Statement No. 76, "The Hierarchy of Generally Accepted Accounting Principles for State and Local Government." The implementation of GASB Statements Nos. 72, 73 and 76 had no effect on the prior period fund balances of the District.

B. Compliance

Ohio Administrative Code, Section 117-2-03(B), requires the District to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America. However, the District prepared its financial statements on a cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The accompanying financial statements omit assets, liabilities, net position/fund balances, and disclosures that, while material, cannot be determined at this time. The District can be fined and various other administrative remedies may be taken against the District.

NOTE 4 - BUDGETARY BASIS OF ACCOUNTING

While the District is reporting financial position, results of operations and changes in fund balances on the cash basis, the budgetary basis as provided by law is based upon accounting for certain transactions on the basis of cash receipts, disbursements and encumbrances. The statement of receipts, disbursements and changes in fund balance – budget and actual (budgetary basis) presented for the General Fund is presented on the budgetary basis to provide meaningful comparison of actual results with the budget. The differences between the budget basis and the cash basis is outstanding year end encumbrances are treated as disbursements (budget) rather than an assignment of fund balance (cash) and some funds are included in the General Fund on the cash basis but not on the budgetary basis.

BERNE UNION LOCAL SCHOOL DISTRICT

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016*

NOTE 4 - BUDGETARY BASIS OF ACCOUNTING - (Continued)

The following table summarizes the adjustments necessary to reconcile the cash basis statements to the budgetary basis statement:

	<u>Net Change in Fund Cash Balance</u>
	<u>General</u>
Cash Basis	\$1,057,380
Adjustment for encumbrances	(822,589)
Funds budgeted elsewhere**	<u>12,177</u>
Budget Basis	<u><u>\$246,968</u></u>

**As part of Governmental Accounting Standards Board Statement No. 54, "Fund Balance Reporting", certain funds that are legally budgeted in separate special revenue funds are considered part of the General Fund on a cash basis.

NOTE 5 - DEPOSITS AND INVESTMENTS

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

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

Inactive deposits are public deposits that the Board has identified as not required for use within the current two year period of designation of depositories. Inactive deposits must be either 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 moneys. Interim moneys are those moneys 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 accounts including passbook accounts.

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

BERNE UNION LOCAL SCHOOL DISTRICT

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016*

NOTE 5 - DEPOSITS AND INVESTMENTS - (Continued)

Interim monies may 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, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above, provided that the fair 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 fair value daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section, and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAROhio);
7. Certain bankers acceptances and commercial paper notes for a period not to exceed one hundred eighty days from the date of purchase in an amount not to exceed twenty-five percent of interim monies available for investment at any time; and
8. Under limited circumstances, corporate debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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

The following information classifies deposits and investments by categories of risk as defined in GASB Statement No. 3, "Deposits with Financial Institutions, Investments and Reverse Repurchase Agreements" and GASB Statement No. 40 "Deposit and Investment Risk Disclosures."

BERNE UNION LOCAL SCHOOL DISTRICT

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016*

NOTE 5 - DEPOSITS AND INVESTMENTS - (Continued)

Deposits: Custodial credit risk is the risk that, in the event of a bank failure, the District's deposits may not be returned. All deposits are collateralized with eligible securities. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the District.

At June 30, 2016, the carrying amount of all District deposits was \$4,356,046; excluding the District's deficit cash position in the pooled cash and cash equivalents held by the fiscal agent (see Note 8). Based on the criteria described in GASB Statement No. 40, "Deposit and Investment Risk Disclosures", as of June 30, 2016, \$4,190,118 of the District's bank balance of \$4,440,118 was exposed to custodial credit risk as discussed above while \$250,000 was covered by Federal Depository Insurance. The \$4,190,118 exposed to custodial risk was collateralized with securities held by the pledging financial institution or its agent in the District's name.

NOTE 6 - PROPERTY TAXES

Property taxes are levied and assessed on a calendar year basis while the District fiscal year runs from July through June. First half of tax collections are received by the 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 District. Real property tax revenue received in calendar 2016 represents collections of calendar year 2015 taxes. Real property taxes received in calendar year 2016 were levied after April 1, 2015, on the assessed value listed as of January 1, 2015, the lien date. Assessed values for real property taxes are established by State law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

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

Single county taxpayers may pay annually or semiannually. If paid annually, payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the District prior to June 30.

The District receives property taxes from Fairfield and Hocking Counties. The County Auditors periodically advance to the District its portion of the taxes collected. Second-half real property tax payments collected by the Counties by June 30, 2016 are available to finance fiscal year 2016 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

BERNE UNION LOCAL SCHOOL DISTRICT

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016*

NOTE 6 - PROPERTY TAXES- (Continued)

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

	2015 Second - Half Collections		2016 First - Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential and Other Real Estate	\$94,364,560	76.28%	\$95,041,420	74.86%
Public Utility Personal	29,345,160	23.72%	31,915,730	25.14%
Total Assessed Value	<u>\$123,709,720</u>	<u>100.00%</u>	<u>\$126,957,150</u>	<u>100.00%</u>
Total rate per \$1,000 of assessed valuation	\$44.40		\$44.40	

NOTE 7- INCOME TAX

The District levies a voted income tax of 2.00 percent for general operations on the earned income of residents, effective January 1, 2015. The income tax rate was increased from 1.00 percent to 2.00 percent by voters in 2014 and continues for 10 years (expires December 31, 2024) as well as changes from a traditional tax base to an earned income tax base. Employers of residents are required to withhold income tax on earned income and remit the tax to the State. Taxpayers are required to file an annual return. The State makes quarterly distributions to the District after withholding amounts for administrative fees and estimated refunds. Income tax receipts of \$1,803,935 were credited to the General Fund for fiscal year 2016.

NOTE 8 - RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year 2016, the District contracted with Hylant Administrative Services for professional and general liability insurance, fleet insurance and property insurance. Coverage's provided are as follows:

Building/Contents and Boiler/Machinery Building/Contents	\$38,028,418
Fleet Liability (Buses \$1,000 collision and comprehensive all other \$500 deductible for collision and \$250 for comprehensive)	3,000,000
General Liability: Per Occurrence	4,000,000
Aggregate Limit	6,000,000
Public Official Bonds:	
Treasurer	50,000
Superintendent	25,000
Board President	25,000

BERNE UNION LOCAL SCHOOL DISTRICT

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016*

NOTE 8 - RISK MANAGEMENT – (Continued)

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

For fiscal year 2016, the District participated in the Ohio School Boards Association Worker's Compensation Group Rating Program (GRP) (the Plan), an insurance purchasing pool (Note 18). The intent of the Plan is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the Plan. The worker's compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the Plan. Each participant pays its worker's compensation premium to the State based on the rate for the Plan rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the Plan. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the Plan. Participation in the Plan is limited to school districts that can meet the Plan's selection criteria. The firm Sheakley Unicom provides administrative, cost control and actuarial services to the Plan.

The District joined four other school districts January 1, 1996, to form a regional council of governments in accordance with Ohio Revised Code Chapter 167, the South Central Ohio Insurance Consortium (SCOIC) for the purpose of carrying out a joint self-insurance program pursuant to Section 9.833 of the Ohio Revised Code, in an effort to minimize risk exposure and control claims and premium costs. The Board's share and the employees' share of premium contributions are determined by the negotiated agreement for employee groups and by Board action for administrative employees.

Stop loss limits are established by each district participating within the program. For fiscal year 2016, the District had an individual stop loss limit of \$75,000 per person with a \$3 million maximum lifetime limit per person. With this coverage, the District contributions to the program cover the first \$75,000 in claims per individual and anything in excess of this amount is covered by commercial stop loss coverage obtained through commercial carriers. Effective July 1, 2016 claims in excess of the individual predetermined limit established by each district up to \$200,000 will be covered by SCOIC internal pool with anything in excess of that amount covered by commercial carriers.

EV Benefits services all claims submitted by employees. The charges for services receipts reported in the internal service fund within these financial statements reflect the premiums paid by the same fund as those that are responsible for the employees' salaries. Disbursements reported within the internal service fund represent cash disbursements reported by SCOIC to operate the District's self-insurance program including claims, claims reserves and administrative costs.

At June 30, 2016 the District's position in the pooled cash and cash equivalents held by SCOIC was a negative \$451,753 due to the large claims incurred during the year. This deficit will be recovered by the Program through enhanced premiums over the next three years. Also at that date, the District had an estimated \$280,600 of claims liability, based on an estimate provided by SCOIC, related to incurred but not reported (IBNR) claims at year end. The change in claims activity for the past two years is presented below.

<u>Fiscal Year</u>	<u>Beginning Balance</u>	<u>Incurred Claims</u>	<u>Paid Claims</u>	<u>Ending Balance</u>
2016	\$ 140,200	\$ 1,568,306	\$ 1,427,906	\$ 280,600
2015	47,600	965,678	873,078	140,200

BERNE UNION LOCAL SCHOOL DISTRICT

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016*

NOTE 9 - DEFINED BENEFIT PENSION PLANS

Net Pension Liability

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

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

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

GASB Statement No. 68 assumes the liability is solely the obligation of the employer, because (1) they benefit from employee services; and (2) State statute requires all funding to come from these employers. All contributions to date have come solely from these employers (which also includes costs paid in the form of withholdings from employees). State statute requires the pension plans to amortize unfunded liabilities within 30 years. If the amortization period exceeds 30 years, each pension plan's board must propose corrective action to the State legislature. Any resulting legislative change to benefits or funding could significantly affect the net pension liability. Resulting adjustments to the net pension liability would be effective when the changes are legally enforceable.

Plan Description - School Employees Retirement System (SERS)

Plan Description –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.

BERNE UNION LOCAL SCHOOL DISTRICT

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016*

NOTE 9 - DEFINED BENEFIT PENSION PLANS - (Continued)

Age and service requirements for retirement are as follows:

	Eligible to Retire on or before August 1, 2017 *	Eligible to Retire on or after August 1, 2017
Full Benefits	Any age with 30 years of service credit Age 65 with 5 years 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, 2018, will be included in this plan.

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

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

Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System's funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2016, the allocation to pension, death benefits, and Medicare B was 14 percent. Of the 14 percent employer contribution rate none was allocated to the Health Care Fund for the fiscal year 2016.

The District's contractually required contribution to SERS was \$194,445 for fiscal year 2016.

Plan Description - State Teachers Retirement System (STRS)

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

BERNE UNION LOCAL SCHOOL DISTRICT

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016*

NOTE 9 - DEFINED BENEFIT PENSION PLANS - (Continued)

New members have a choice of three retirement plans; a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. Benefits are established by Ohio Revised Code Chapter 3307. The DB plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service. Effective August 1, 2015, the calculation will be 2.2 percent of final average salary for the five highest years of earnings multiplied by all years of service. With certain exceptions, the basic benefit is increased each year by two percent of the original base benefit. For members retiring August 1, 2013, or later, the first two percent is paid on the fifth anniversary of the retirement benefit. Members are eligible to retire at age 65 with five year of qualifying service credit 31 years of service regardless of age. Age and service requirements for retirement will increase effective August 1, 2017, and will continue to increase periodically until they reach age 60 with 35 years of service or age 65 with five year of service on August 1, 2026.

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

The Combined Plan offers features of both the DB Plan and the DC Plan. In the Combined Plan, member contributions are allocated among investment choices by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 65 with five years of services. The defined contribution portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity at age 50.

New members who choose the DC plan or Combined Plan will have another opportunity to reselect a permanent plan during their fifth year of membership. Members may remain in the same plan or transfer to another STRS plan. The optional annuitization of a member's defined contribution account or the defined contribution portion of a member's Combined Plan account to a lifetime benefit results in STRS bearing the risk of investment gain or loss on the account. STRS has therefore included all three plan options as one defined benefit plan for GASB Statement No. 68 reporting purposes.

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

Funding Policy – Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. The statutory maximum employee contribution rate was increased one percent July 1, 2015, and will be increased one percent each year until it reaches 14 percent on July 1, 2016. For the fiscal year ended June 30, 2016, plan members were required to contribute 13 percent of their annual covered salary. The District was required to contribute 14 percent; the entire 14 percent was the portion used to fund pension obligations. The fiscal year 2016 contribution rates were equal to the statutory maximum rates.

BERNE UNION LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2016

NOTE 9 - DEFINED BENEFIT PENSION PLANS - (Continued)

The District's contractually required contribution to STRS was \$477,392 for fiscal year 2016.

District's Proportionate Share of Net Pension Liability

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

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportionate Share of the Net Pension Liability	\$2,329,440	\$9,200,789	\$11,530,229
Proportion of the Net Pension Liability	0.04082370%	0.03329147%	

Actuarial Assumptions - SERS

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

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

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

BERNE UNION LOCAL SCHOOL DISTRICT

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016*

NOTE 9 - DEFINED BENEFIT PENSION PLANS - (Continued)

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

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

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

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

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

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

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

BERNE UNION LOCAL SCHOOL DISTRICT

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016*

NOTE 9 - DEFINED BENEFIT PENSION PLANS - (Continued)

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

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
District's proportionate share of the net pension liability	\$3,230,096	\$2,329,440	\$1,571,013

Actuarial Assumptions - STRS

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

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

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

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

BERNE UNION LOCAL SCHOOL DISTRICT

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016*

NOTE 9 - DEFINED BENEFIT PENSION PLANS - (Continued)

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

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

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

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

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
District's proportionate share of the net pension liability	\$12,780,589	\$9,200,789	\$6,173,533

BERNE UNION LOCAL SCHOOL DISTRICT

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016*

NOTE 10 - POSTEMPLOYMENT BENEFITS

School Employee Retirement System

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

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

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

The Health Care Fund was established under, and is administered in accordance with Internal Revenue Code Section 105(e). Each year after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer 14 percent contribution to the Health Care Fund. For the year ended June 30, 2016, the health care allocation is 0 percent. An addition health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. By statutes 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 2016, the minimum compensation level was established at \$23,000. The surcharge, added to the unallocated portion of the 14 percent employer contribution rate is the total amount assigned to the Health Care Fund. The District's contributions assigned to health care for the fiscal years ended June 30, 2016, 2015, and 2014 were \$0, \$20,748 and \$19,272, respectively.

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

The financial reports of SERS' Health Care plan is included in its Comprehensive Annual Financial Report. The report can be obtained on SERS' website at www.ohsers.org under Employers/Audit Resources.

State Teachers Retirement System

Plan Description – State Teachers Retirement System of Ohio (STRS Ohio) administers a pension plan that is comprised of: a Defined Benefits Plan, a self-directed Defined Contribution Plan, and a Combined Plan that is a hybrid of the Defined Benefits Plan and the Defined Contribution Plan.

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

BERNE UNION LOCAL SCHOOL DISTRICT

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016*

NOTE 10 - POSTEMPLOYMENT BENEFITS - (Continued)

Pursuant to Chapter 3307 of the Revised Code, the Retirement Board has discretionary authority over how much, if any, of the associated health care costs will be absorbed by STRS Ohio. All health care plan enrollees, for the most recent year, pay a portion of the health care costs in the form of a monthly premium. The District's contributions for health care for the fiscal years ended June 30, 2016, 2015, and 2014 were \$0, \$0 and \$36,951, respectively.

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

NOTE 11 - EMPLOYEE BENEFITS

Compensated Absences

The criteria for determining vested vacation and sick leave components are derived from negotiated agreements and State laws. Classified employees earn ten to twenty-five days of vacation per year, depending upon length of service. Accumulated, unused vacation time is paid to classified employees upon termination of employment. Teachers and administrators who work less than 260 days per year do not earn vacation time.

Teachers, administrators, and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of 250 days for aides and all other classified employees and for certified employees. Upon retirement, payment is made for one-fourth of accrued, but unused sick leave credit up to a maximum of 55 days for all employees.

NOTE 12 - LONG-TERM OBLIGATIONS

The changes in the District's long-term liabilities during fiscal year 2016 were as follows:

	<u>Issue Date</u>	<u>Interest Rate</u>	<u>Principal Outstanding at July 1, 2015</u>	<u>Additions</u>	<u>Deductions</u>	<u>Principal Outstanding at June 30, 2016</u>	<u>Amount Due In One Year</u>
<i>Governmental Activities:</i>							
HB 264 Energy Loan	2007	3.99%	\$362,317	\$0	\$118,470	\$243,847	\$123,235
HB 264 Energy Conservation Notes	2015	3.34%	0	435,000	24,195	410,805	23,450
Lease Purchase Agreement	2015	3.40%	0	1,800,000	88,392	1,711,608	96,428
Capital Lease			<u>117,205</u>	<u>0</u>	<u>57,783</u>	<u>59,422</u>	<u>59,422</u>
Total Governmental Activities Long-Term Obligations			<u>\$ 479,522</u>	<u>\$2,235,000</u>	<u>\$288,840</u>	<u>\$2,425,682</u>	<u>\$302,535</u>

HB264 Energy Loan - In July 2007, Berne Union Local School District issued general obligation debt for H.B. 264 energy improvements. The loan was issued for \$1,055,000 at 3.99% interest and mature December, 2017. The loan will be retired through the General Fund using amounts from energy savings.

BERNE UNION LOCAL SCHOOL DISTRICT

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016*

NOTE 12 - LONG-TERM OBLIGATIONS - (Continued)

HB264 Energy Conservation Notes - In July 2015, Berne Union Local School District issued general obligation notes for H.B. 264 energy improvements. The notes were issued for \$435,000 at 3.34% interest and mature June, 2030. The notes will be retired through the General Fund using amounts from energy savings.

Lease Purchase Agreement - In August 2015, Berne Union Local School District entered into a ground lease with a financial institution for roof repairs and HVAC system. Simultaneously, the two parties entered into a contract to lease the property to the District, including existing and new improvements made upon the property.

To facilitate the new improvements to the property called for within the agreement, the District received \$1,800,000 from the financial institution to provide financing for the above noted improvements of the school facilities. The School District has the responsibility to authorize disbursements to complete the improvements and upon final payment of all scheduled rent payments, ownership of property reverts back to the School District.

Principal and interest components of the scheduled base rent payments outstanding at June 30, 2016 are shown below.

Fiscal Year Ending June 30,	Principal	Interest	Total
2017	\$ 96,428	\$ 57,375	\$ 153,803
2018	96,428	54,096	150,524
2019	104,464	50,749	155,213
2020	104,464	47,198	151,662
2021	112,500	43,578	156,078
2022-2026	614,734	158,191	772,925
2027-2028	582,590	45,490	628,080
	<u>\$ 1,711,608</u>	<u>\$ 456,678</u>	<u>\$ 2,168,286</u>

On November 8, 1994, the voters of the District passed a .5 mill levy to qualify for State Building Assistance Funds. The District received a \$6,120,000 loan from the State of Ohio for the construction and reconstruction of classroom facilities.

Pursuant to changes that became effective on September 14, 2000, Section 3318.05 of the Ohio Revised Code was amended eliminating the requirement that certain school districts receiving state classroom facilities assistance repay one-half of the required twenty-three year one-half mill levy. From that date forward any school district that had previously been required to make repayment has been directed to cease making the payments to the Ohio School Facilities Commission and to instead deposit one hundred percent of the proceeds in the Classroom Facilities Maintenance Nonmajor Special Revenue Fund designated by the Auditor of State.

The District's overall legal debt margin was \$9,059,701 with an unvoted debt margin of \$126,957 at June 30, 2016.

BERNE UNION LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2016

NOTE 12 - LONG-TERM OBLIGATIONS - (Continued)

The annual requirements to retire the general obligation debt outstanding at June 30, 2016 are as follows:

Fiscal Year Ending June 30,	HB 264 Energy Loan		HB 264 Energy Conservation Notes	
	Principal	Interest	Principal	Interest
2017	\$123,235	\$9,891	\$23,450	\$13,527
2018	120,612	4,850	24,239	12,737
2019	0	0	25,056	11,921
2020	0	0	25,900	11,077
2021	0	0	26,772	10,204
2022-2026	0	0	148,006	36,875
2027-2030	0	0	137,382	10,523
Total Debt	\$243,847	\$14,741	\$410,805	\$106,864

NOTE 13 - CAPITAL LEASES - LESSEE DISCLOSURE

The District entered into capital lease for buses in the amount of \$178,310. This lease meets the criteria of a capital lease which is defined as one which transfers benefits and risks of ownership to the lessee. Capital lease payments have been reclassified and are reflected as debt service expenditures in the basic financial statements for the governmental funds. However, these expenditures are reported as current expenditures on the budgetary statement.

The following is a schedule of the future long-term minimum lease payments required under the capital leases and the present value of the minimum lease payments as of June 30, 2016:

Fiscal Year Ending June 30	Total Payments
2017	\$61,105
Less: Amount Representing Interest	(1,683)
Present Value of Net Minimum Lease Payments	\$59,422

BERNE UNION LOCAL SCHOOL DISTRICT

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016*

NOTE 14 – FUND CASH BALANCES

As of June 30, 2016, fund cash balances are composed of the following:

	General	Permanent Improvement	Nonmajor Governmental Funds	Total Governmental Funds
<i>Nonspendable:</i>				
Unclaimed Monies	\$1,310	\$0	\$0	\$1,310
<i>Restricted:</i>				
Set Asides	12,073	0	0	12,073
Debt Service	0	0	45,014	45,014
Capital Improvements	0	1,098,730	0	1,098,730
Facilities Maintenance	0	0	36,796	36,796
State Grants	0	0	1,491	1,491
Federal Grants	0	0	4,972	4,972
Food Service	0	0	158,268	158,268
Athletics/Band	0	0	11,238	11,238
<i>Total Restricted</i>	<u>12,073</u>	<u>1,098,730</u>	<u>257,779</u>	<u>1,368,582</u>
<i>Assigned:</i>				
Uniform School Supplies	1,526	0	0	1,526
Public School Support	5,216	0	0	5,216
Student Instruction	6,914	0	0	6,914
Student and Staff Support	815,675	0	0	815,675
Permanent Improvements	2,006,416	0	0	2,006,416
<i>Total Assigned</i>	<u>2,835,747</u>	<u>0</u>	<u>0</u>	<u>2,835,747</u>
<i>Unassigned</i>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Fund Balances	<u>\$2,849,130</u>	<u>\$1,098,730</u>	<u>\$257,779</u>	<u>\$4,205,639</u>

BERNE UNION LOCAL SCHOOL DISTRICT

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016*

NOTE 15 - STATUTORY SET-ASIDES

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

The following changes occurred in the District set-aside reserve accounts during fiscal year 2016:

	<u>Capital Acquisition</u>
Set-Aside Reserve Balance as of June 30, 2015	\$0
Current Year Set-Aside Requirement	148,304
Qualifying Disbursements	<u>(136,231)</u>
Totals	<u>12,073</u>
Set-Aside Balance Carried Forward to Future Fiscal Years	<u><u>\$0</u></u>

Excess of qualified expenditures for capital improvements do not carry forward.

NOTE 16 - ENCUMBRANCE COMMITMENTS

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

	<u>Year-End Encumbrances</u>
General Fund	\$822,589
Permanent Improvement	1,001,673
Nonmajor governmental funds	<u>47,225</u>
Total	<u><u>\$1,871,487</u></u>

BERNE UNION LOCAL SCHOOL DISTRICT

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016*

NOTE 17 - JOINTLY GOVERNED ORGANIZATIONS

Metropolitan Education Council (MEC)

Metropolitan Education Council is a jointly governed organization created as a regional council of governments pursuant to State statutes. MEC is a not for profit educational council whose primary purpose and objective is to contribute to the educational services available to school districts in Franklin County and surrounding areas by cooperative action membership. The governing board consists of a representative from each of the Franklin County districts. Districts outside of Franklin County are associate members and each county selects a single district to represent them on the governing board. MEC is its own fiscal agent. The District does not have an ongoing financial interest in or ongoing financial responsibility for MEC. MEC provides computer services to the District.

South Central Ohio Insurance Consortium (SCOIC)

South Central Ohio Insurance Consortium is a regional council of governments organized under Ohio Revised Code Chapter 167. The SCOIC's primary purpose and objective is establishing and carrying out a cooperative health program for its member organizations. The governing board consists of the superintendent or other designee appointed by each of the members of the SCOIC. The District does not have an ongoing financial interest in or financial responsibility for the SCOIC other than claims paid on behalf of the District for District employees.

NOTE 18 - INSURANCE PURCHASING POOL

Ohio School Boards Association Worker's Compensation Group Rating Program

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

NOTE 19 - CONTINGENCIES

A. Grants

The 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 is 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 District at June 30, 2016, if applicable, cannot be determined at this time.

B. Litigation

The District is involved in no pending litigation that would have a material effect on the financial condition of the District.

BERNE UNION LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2016

NOTE 19 – CONTINGENCIES - (Continued)

C. School Foundation

District Foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. Effective for the 2014-2015 school year, traditional school districts must comply with minimum hours of instruction, instead of a minimum number of school days each year. The funding formula the Ohio Department of Education (ODE) is legislatively required to follow will continue to adjust as enrollment information is updated by the District, which can extend past the fiscal year end. As of the date of this report, ODE has not finalized the impact of enrollment adjustments to the June 30, 2015 or June 30, 2016 fiscal year. However, based on information available as of the date of these financial statements, these reviews have resulted in a positive adjustment of \$671 for fiscal year 2015 and a negative adjustment of \$11,435 for fiscal year 2016. Adjustments to foundation funding resulting from these reviews are adjusted through subsequent foundation settlement from the State.

BERNE UNION LOCAL SCHOOL DISTRICT
Schedule of the District's Proportionate Share of Net Pension Liability
Last Three Measurement Years (1)

	2015	2014	2013
<u>School Employees Retirement System of Ohio</u>			
District's Proportion of the Net Pension Liability (Asset)	0.040824%	0.038088%	0.038088%
District's Proportionate Share of the Net Pension Liability (Asset)	\$2,329,440	\$1,927,612	\$2,264,971
District's Covered-Employee Payroll	\$1,218,146	\$1,117,937	\$1,122,175
District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of it's Covered-Employee Payroll	191.23%	172.43%	201.84%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	69.16%	71.70%	65.52%
<u>State Teachers Retirement System of Ohio</u>			
District's Proportion of the Net Pension Liability (Asset)	0.033291%	0.032985%	0.032985%
District's Proportionate Share of the Net Pension Liability (Asset)	\$9,200,789	\$8,099,343	\$9,647,884
District's Covered-Employee Payroll	\$3,103,507	\$3,663,892	\$3,772,523
District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of it's Covered-Employee Payroll	296.46%	221.06%	255.74%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	72.10%	74.70%	63.90%

(1) Information prior to 2013 is not available. The District will continue to present information for years available until a full ten-year trend is presented.

BERNE UNION LOCAL SCHOOL DISTRICT
Schedule of the District Contributions
Last Four Fiscal Years (1)

	2016	2015	2014	2013
<u>School Employees Retirement System of Ohio</u>				
Contractually Required Contributions	\$194,445	\$168,835	\$154,946	\$155,309
Contributions in Relation to the Contractually Required Contribution:	<u>(194,445)</u>	<u>(168,835)</u>	<u>(154,946)</u>	<u>(155,309)</u>
Contribution Deficiency (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
District Covered-Employee Payrol	\$1,388,893	\$1,218,146	\$1,117,937	\$1,122,175
Contributions as a Percentage of Covered-Employee Payrol	14.00%	13.86%	13.86%	13.84%
<u>State Teachers Retirement System of Ohio</u>				
Contractually Required Contributions	\$477,392	\$434,533	\$476,306	\$490,428
Contributions in Relation to the Contractually Required Contribution:	<u>(477,392)</u>	<u>(434,533)</u>	<u>(476,306)</u>	<u>(490,428)</u>
Contribution Deficiency (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
District Covered-Employee Payrol	\$3,409,943	\$3,103,507	\$3,663,892	\$3,772,523
Contributions as a Percentage of Covered-Employee Payrol	14.00%	14.00%	13.00%	13.00%

(1) Information prior to 2013 is not available. The District will continue to present information for years available until a full ten-year trend is presented

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Board of Education
Berne Union Local School District
506 North Main Street
Sugar Grove, Ohio 43155

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the Berne Union Local School District (the District), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated December 22, 2016, wherein we noted the District prepared its financial statements on a cash accounting basis, which is a basis other than accounting principles generally accepted in the United States of America.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings as item 2016-002 which we consider to be material weaknesses.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under *Government Auditing Standards*, and which is described in the accompanying schedule of audit findings as item 2016-001.

District's Responses to Findings

The District's responses to the findings identified in our audit are described in the accompanying schedule of audit findings. The District's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

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

Clark, Schaefer, Hackett & Co.

Springfield, Ohio
December 22, 2016

Financial Statement Findings

2016-001: Reporting Annual Financial Statements

Condition: The District's annual financial statements follow a comprehensive accounting basis other than accounting principles generally accepted in the United States of America (GAAP).

Criteria: Ohio Administrative Code Section 117-2-3(B) requires the District to prepare its annual financial report in accordance with GAAP.

Effect: Pursuant to Ohio Rev. Code Section 117.38 the District may be fined and subject to various other administrative remedies for its failure to file the required financial report in accordance with GAAP.

Cause: Due to current economic issues, the District elected to prepare and submit its annual financial report on the cash basis of accounting as a means to realize savings in accounting and auditing fees on an annual basis. The accompanying financial statements and notes omit material assets, liabilities, fund equities, and disclosures that, while material, cannot be determined at this time.

Recommendation: We recommend the District further consider reporting its annual financial report in accordance with GAAP to include all assets, liabilities and disclosures to provide a complete presentation of its financial status.

Management Response: The School District officials do not believe that preparing financial statements in accordance with generally accepted accounting principles is cost beneficial.

2016-002: Audit Adjustments

Condition: Audit adjustments were necessary to properly account for the internal service fund activity and net position at year end as well as reclassify fund balance and debt proceeds from one line-item to another.

Criteria: Management is responsible for the preparation and fair presentation of the financial statements which are free from misstatements, whether due to fraud or error.

Effect: Presenting incomplete and inaccurate financial statements, amounts and disclosures increases the risk that individuals relying upon those financial statements could reach inappropriate decision.

Cause: Due to significant insurance claims during fiscal year 2016 the District had a net fund deficit in their account with South Central Ohio Insurance Consortium (SCOIC), which was not reflected on the financial statements. In addition certain items were not properly classified within the financial statements.

Recommendation: We recommend the District review their account with SCOIC regularly and properly incorporate the activity of its self-insured benefits program within the fiscal year-end financial statements. In addition, classification of amounts within the financial statements should be reviewed for accuracy prior to finalizing the financial statements.

Management Response: The School District agrees with the adjustments and officials will implement controls over the SCOIC account that includes a regular review of the account balance throughout the year as well as at fiscal year-end. Financial statement classifications will be reviewed to ensure proper presentation as well.

Finding 2015-001: Reporting Annual Financial Statements

The District's annual financial statements follow a comprehensive accounting basis other than accounting principles generally accepted in the United States of America (GAAP). Ohio Administrative Code Section 117-2-3(B) requires the District to prepare its annual financial report in accordance with GAAP.

Status: Uncorrected; see current audit finding 2016-001



At Clark Schaefer Hackett, we believe there's a difference between providing accounting services and actually serving you. One is about numbers, the other is about relationships. We strive to create remarkable relationships The CSH Way: by building trust, offering guidance, delivering desired outcomes, and providing vision to help you achieve your goals.

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Dave Yost • Auditor of State

BERNE UNION LOCAL SCHOOL DISTRICT

FAIRFIELD 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 14, 2017**