



Dave Yost • Auditor of State

**UNION LOCAL SCHOOL DISTRICT
BELMONT COUNTY
JUNE 30, 2017**

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BELMONT COUNTY
JUNE 30, 2017**

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

Union Local School District
Belmont County
66779 Belmont-Morristown Road
Belmont, Ohio 43718

To the Board of Education:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the Union Local School District, Belmont County, Ohio (the School District), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the aggregate remaining fund information of the Union Local School District, Belmont County, Ohio, as of June 30, 2017, and the respective changes in financial position thereof and the budgetary comparison for the General Fund thereof for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Supplementary and Other Information

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

The Schedule of Expenditures of Federal Awards (the Schedule) presents additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards and is not a required part of the financial statements.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 15, 2018, on our consideration of the School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School District's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "Y" and "O".

Dave Yost
Auditor of State
Columbus, Ohio

February 15, 2018

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Union Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2017
Unaudited

The discussion and analysis of Union Local School District's financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2017. The intent of this discussion and analysis is to look at the School District's financial performance as a whole; readers should also review the basic financial statements and the notes to the financial statements to enhance their understanding of the School District's financial performance.

Financial Highlights

Key financial highlights for fiscal year 2017 are as follows:

- Net position decreased \$197,689.
- General revenues accounted for \$12,829,968 in revenue or approximately 77 percent of all revenues. Program specific revenues in the form of charges for services, and operating grants and contributions accounted for \$3,911,872 or 23 percent of total revenues in the amount of \$16,741,840.
- Total assets increased \$1,117,651, primarily due to increases in cash and cash equivalents, property taxes receivable, and intergovernmental receivable. Total liabilities increased \$4,699,657 primarily due to an increase in net pension liability, accrued wages and benefits payable, and contracts payable.
- The School District had \$16,939,529 in expenses related to governmental activities; only \$3,911,872 of these expenses were offset by program specific charges for services, and operating grants and contributions. General revenues in the amount of \$12,829,968 were not adequate to provide for these programs.
- Total Governmental funds had \$16,765,596 in revenues and \$16,161,576 in expenditures. Overall, including other financing sources and uses, total Governmental funds' balance increased \$604,020.

Using this Annual Financial Report

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

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

Reporting the School District as a Whole

Statement of Net Position and the Statement of Activities

While this document contains information about the large number of funds used by the School District to provide programs and activities for students, the view of the School District as a whole looks at all financial transactions and asks the question, "How did we do financially during fiscal year 2017?" The Statement of Net Position and the Statement of Activities answer this question. These statements include all assets and liabilities using the

Union Local School District
Management's Discussion and Analysis
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accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

In the Statement of Net Position and the Statement of Activities, all of the School District's activities are reported as Governmental Activities including: instruction, support services, operation of non-instructional services, debt service operations, and extracurricular activities.

Reporting the School District's Most Significant Funds

Fund Financial Statements

The analysis of the School District's major funds begins on page 11. Fund financial reports provide detailed information about the School District's major funds. The School District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the School District's most significant funds. The School District's major governmental fund is the General Fund.

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

Reporting the District's Fiduciary Responsibilities

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

The School District as a Whole

Recall that the Statement of Net Position provides the perspective of the School District as a whole.

Table 1 provides a summary of the School District's net position for 2017 compared to 2016.

Union Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2017
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Table 1
Net Position
Governmental Activities

| | 2017 | 2016 | Change |
|--|----------------------|----------------------|--------------------|
| Assets | | | |
| Current and Other Assets | \$10,000,955 | \$8,452,779 | \$1,548,176 |
| Capital Assets | 11,766,121 | 12,196,646 | (430,525) |
| Total Assets | 21,767,076 | 20,649,425 | 1,117,651 |
| Deferred Outflows of Resources | | | |
| Pension | 4,737,413 | 1,972,358 | 2,765,055 |
| Liabilities | | | |
| Current and Other Liabilities | 1,943,068 | 1,680,883 | 262,185 |
| Long-Term Liabilities: | | | |
| Due Within One Year | 533,646 | 542,026 | (8,380) |
| Due in More Than One Year: | | | |
| Net Pension Liability | 23,470,422 | 18,617,704 | 4,852,718 |
| Other Amounts | 1,513,992 | 1,920,858 | (406,866) |
| Total Liabilities | 27,461,128 | 22,761,471 | 4,699,657 |
| Deferred Inflows of Resources | | | |
| Property Taxes | 4,371,010 | 3,665,916 | 705,094 |
| Pension | 340,042 | 1,664,398 | (1,324,356) |
| Total Deferred Inflows of Resources | 4,711,052 | 5,330,314 | (619,262) |
| Net Position (Deficit) | | | |
| Net Investment in Capital Assets | 10,510,765 | 10,646,965 | (136,200) |
| Restricted | 1,332,869 | 1,384,541 | (51,672) |
| Unrestricted | (17,511,325) | (17,501,508) | (9,817) |
| Total Net Position (Deficit) | (\$5,667,691) | (\$5,470,002) | (\$197,689) |

The net pension liability (NPL) is the largest single liability reported by the School District at June 30, 2017 and is reported pursuant to GASB Statement 68, "Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement 27." For reasons discussed below, many end users of this financial statement will gain a clearer understanding of the School District's actual financial condition by adding deferred inflows related to pension and the net pension liability to the reported net position and subtracting deferred outflows related to pension.

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

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GASB 68 requires the net pension liability to equal the School District's proportionate share of each plan's collective:

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

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

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

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

Total assets of governmental activities increased \$1,117,651. Current assets increased \$1,548,176, primarily due to increases in cash and cash equivalents; increases in property taxes receivable as a result of increases in assessed valuation; and increases in intergovernmental receivables related to federal grants. Capital assets decreased \$430,525 primarily due to annual depreciation exceeding capital asset additions in the fiscal year.

Total liabilities increased \$4,699,657. Current and other liabilities increased \$262,185 due primarily to an increase in contracts payable related to a School District parking lot improvement project, accrued wages and benefits payable as well as corresponding intergovernmental payables. Long-term liabilities increased \$4,437,472. The increase is primarily due to a significant increase in net pension liability which represents the School District's proportionate share of the respective pension systems' unfunded benefits. The increase in net pension liability was offset slightly by the annual debt service.

Union Local School District
Management's Discussion and Analysis
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Table 2 shows the changes in net position for fiscal year 2017 compared to fiscal year 2016.

| Table 2 | | | |
|---|----------------------|----------------------|--------------------|
| Changes in Net Position | | | |
| Governmental Activities | | | |
| | 2017 | 2016 | Change |
| Revenues | | | |
| <i>Program Revenue</i> | | | |
| Charges for Services | \$1,640,478 | \$1,614,838 | \$25,640 |
| Operating Grants and Contributions | 2,271,394 | 1,910,004 | 361,390 |
| Total Program Revenue | 3,911,872 | 3,524,842 | 387,030 |
| <i>General Revenue</i> | | | |
| Property Taxes | 4,886,523 | 4,303,497 | 583,026 |
| Grants and Entitlements | 7,854,823 | 7,861,761 | (6,938) |
| Gifts and Donations | 24,516 | 96,232 | (71,716) |
| Investments | 12,666 | 10,249 | 2,417 |
| Miscellaneous | 51,440 | 42,058 | 9,382 |
| Total General Revenue | 12,829,968 | 12,313,797 | 516,171 |
| Total Revenues | 16,741,840 | 15,838,639 | 903,201 |
| Program Expenses | | | |
| Instruction: | | | |
| Regular | 7,808,402 | 7,090,941 | 717,461 |
| Special | 2,533,364 | 2,285,703 | 247,661 |
| Vocational | 401,176 | 411,858 | (10,682) |
| Student Intervention Services | 0 | 4,796 | (4,796) |
| Support Services: | | | |
| Pupil | 686,519 | 522,169 | 164,350 |
| Instructional Staff | 520,839 | 416,527 | 104,312 |
| Board of Education | 79,691 | 63,520 | 16,171 |
| Administration | 1,057,172 | 975,587 | 81,585 |
| Fiscal | 442,247 | 417,434 | 24,813 |
| Operation and Maintenance of Plant | 1,489,467 | 1,325,464 | 164,003 |
| Pupil Transportation | 967,826 | 828,763 | 139,063 |
| Central | 2,646 | 25,004 | (22,358) |
| Operation of Non-Instructional Services | 2,516 | 2,202 | 314 |
| Food Service Operations | 485,192 | 479,889 | 5,303 |
| Extracurricular Activities | 391,857 | 368,781 | 23,076 |
| Interest and Fiscal Charges | 70,615 | 81,524 | (10,909) |
| Total Expenses | 16,939,529 | 15,300,162 | 1,639,367 |
| Change in Net Position | (197,689) | 538,477 | (736,166) |
| Net Position Beginning of Year | (5,470,002) | (6,008,479) | 538,477 |
| Net Position End of Year | (\$5,667,691) | (\$5,470,002) | (\$197,689) |

Union Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2017
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Program revenues accounted for approximately 23 percent of the School District's revenues in fiscal year 2017. These revenues consist of tuition and fees, charges for providing lunches to students, grants for specified purposes. In 2017 program revenues increased \$387,030, primarily due to increases operating grants and contributions associated with 21st Century grant funding.

General revenues, predominately consisting of property taxes and unrestricted grants and entitlements, accounted for approximately 77 percent of the School District's revenues in fiscal year 2017. The increase in general revenues was primarily due to increases in property tax revenue as assessed valuations have increased.

Instructional programs comprise approximately 63 percent of total governmental program expenses. Of the instructional expenses, approximately 73 percent is for regular instruction, approximately 23 percent for special instruction, and approximately 4 percent for vocational instruction. Overall program expenses increased \$1,639,367.

The Statement of Activities shows the cost of program services and the charges for services, grants, contributions, and interest earnings offsetting those services. Table 3 shows the total cost of services and the net cost of services for fiscal year 2017 compared to fiscal year 2016. In other words, it identifies the cost of those services supported by tax revenue and unrestricted entitlements.

Table 3
 Governmental Activities

| | Total Cost of Services | | Net Cost of Services | |
|---|------------------------|--------------|----------------------|--------------|
| | 2017 | 2016 | 2017 | 2016 |
| Instruction: | | | | |
| Regular | \$7,808,402 | \$7,090,941 | \$6,226,981 | \$5,505,371 |
| Special | 2,533,364 | 2,285,703 | 1,204,877 | 1,273,846 |
| Vocational | 401,176 | 411,858 | 324,219 | 319,877 |
| Student Intervention Services | 0 | 4,796 | 0 | 4,796 |
| Support Services | | | | |
| Pupil | 686,519 | 522,169 | 675,535 | 478,254 |
| Instructional Staff | 520,839 | 416,527 | 414,818 | 376,128 |
| Board of Education | 79,691 | 63,520 | 79,691 | 63,520 |
| Administration | 1,057,172 | 975,587 | 922,866 | 869,668 |
| Fiscal | 442,247 | 417,434 | 424,535 | 383,256 |
| Operation and Maintenance of Plant | 1,489,467 | 1,325,464 | 1,438,004 | 1,274,830 |
| Pupil Transportation | 967,826 | 828,763 | 923,669 | 812,617 |
| Central | 2,646 | 25,004 | 2,646 | 25,004 |
| Operation of Non-Instructional Services | 2,516 | 2,202 | 21 | 417 |
| Food Service Operations | 485,192 | 479,889 | 34,000 | 46,655 |
| Extracurricular Activities | 391,857 | 368,781 | 285,180 | 259,557 |
| Interest and Fiscal Charges | 70,615 | 81,524 | 70,615 | 81,524 |
| Total Expenses | \$16,939,529 | \$15,300,162 | \$13,027,657 | \$11,775,320 |

The dependence upon tax revenues and state subsidies for governmental activities is apparent. Approximately 77 percent of program expenses are supported through taxes and other general revenues.

Union Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2017
Unaudited

The School District's Funds

Information about the School District's major fund starts on page 16. This fund is accounted for using the modified accrual basis of accounting. The School District has one major fund, the General Fund. The General Fund had revenues in the amount of \$14,822,503 and expenditures in the amount of \$13,845,214. Overall, including other financing uses, the General Fund's balance decreased \$8,771. Increases in property tax revenues in the General Fund for fiscal year 2017 were offset by a \$986,060 transfer to the Capital Projects Fund.

General Fund Budgeting Highlights

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

During the course of fiscal 2017, the School District amended its General Fund appropriations, and the budgetary statement reflects both the original and final appropriated amounts. The changes between the original and the final budget reflect overall increases in revenue estimates, most significantly estimated property tax revenue. Changes between the original and the final appropriations were not as significant, with budgeted spending increasing in all categories. The actual results of operations were different than budgeted amounts as spending in almost all categories was lower than budgeted appropriations; the difference between actual revenues and final estimated revenues were not significant.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2017, the School District had \$11,766,121 invested in land, construction in progress, land improvements, buildings and improvements, furniture and equipment, and vehicles, net of depreciation. Table 4 shows fiscal 2017 balances compared to 2016:

Table 4
Capital Assets Net of Depreciation
Government Activities

| | 2017 | 2016 |
|------------------------------------|--------------|--------------|
| Land | \$1,842,760 | \$1,842,760 |
| Construction in Progress | 159,757 | 9,757 |
| Land Improvements - Depreciable | 98,153 | 107,576 |
| Buildings and Improvements | 8,861,148 | 9,505,554 |
| Furniture, Fixtures, and Equipment | 169,931 | 162,198 |
| Vehicles | 634,372 | 568,801 |
| Totals | \$11,766,121 | \$12,196,646 |

For more information on capital assets see Note 9 to the basic financial statements.

Union Local School District
Management's Discussion and Analysis
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Debt

At June 30, 2017, the School District had \$1,307,385 outstanding in general obligation bonds, including premiums, and accretion of interest with \$370,000 due within one year. The School District also had \$137,000 outstanding in capital leases with \$67,000 due within one year.

Table 5 summarizes bonds and capital leases outstanding:

Table 5
 Outstanding Debt at Year End
 Government Activities

| | 2017 | 2016 |
|-------------------------------|-------------|-------------|
| 2007 Refunding Bonds | | |
| Serial/Term Bonds | \$0 | \$315,000 |
| Capital Appreciation Bonds | 264,996 | 264,996 |
| Accretion of Interest on CABs | 339,029 | 291,977 |
| Bond Premium | 23,360 | 36,102 |
| 2015 Energy Conservation and | | |
| School Improvement Term Bonds | 680,000 | 720,000 |
| Capital Leases | 137,000 | 213,583 |
| Total | \$1,444,385 | \$1,841,658 |

See Note 15 for more detailed information on the School District's long-term obligations, including compensated absences and net pension liability.

Economic Factors

The School District has benefited economically from the continuing expansion of the oil and gas industry in Belmont County. The School District has entered into gas and oil leases on its property located in Goshen, Smith, and Wayne Townships. The School District is currently exploring a lease on its property in Union Township following the expiration of its previous lease on the property. The School District has received signing bonuses as part of the lease agreements. In addition, the School District has the potential to receive royalty payments in accordance with the leases. See Contingencies Note 20 for further details on the School District's oil and gas leases.

In addition to the increases in property tax revenue that the School District is receiving as a result of increased assessed valuation related to the development of the oil and gas industry, ancillary businesses have been constructed, or are in the process of being constructed, within the School District. These new constructions allow for new and increased tax revenue opportunities.

Union Local School District
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Unaudited

Contacting the School District's Financial Management

This financial report is designed to provide our citizen's, taxpayers, and investors and creditors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Janet S. Hissrich, Treasurer/CFO at Union Local School District, 66779 Belmont-Morristown Road, Belmont, Ohio 43718.

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Union Local School District
Statement of Net Position
June 30, 2017

| | Governmental Activities |
|--|----------------------------|
| Assets | |
| Equity in Pooled Cash and Cash Equivalents | \$4,495,355 |
| Accounts Receivable | 5,626 |
| Intergovernmental Receivable | 502,156 |
| Prepaid Items | 27,110 |
| Materials and Supplies Inventory | 78,711 |
| Property Taxes Receivable | 4,891,997 |
| Non-Depreciable Capital Assets | 2,002,517 |
| Depreciable Capital Assets, Net | 9,763,604 |
| <i>Total Assets</i> | <i>21,767,076</i> |
| Deferred Outflows of Resources | |
| Pension | 4,737,413 |
| Liabilities | |
| Accrued Wages and Benefits Payable | 1,423,405 |
| Intergovernmental Payable | 305,102 |
| Accounts Payable | 59,334 |
| Matured Severance Payable | 3,556 |
| Contracts Payable | 135,000 |
| Retainage Payable | 15,000 |
| Accrued Interest Payable | 1,671 |
| Long-Term Liabilities: | |
| Due Within One Year | 533,646 |
| Due in More Than One Year: | |
| Net Pension Liability (See Note 11) | 23,470,422 |
| Other Amounts | 1,513,992 |
| <i>Total Liabilities</i> | <i>27,461,128</i> |
| Deferred Inflows of Resources | |
| Property Taxes | 4,371,010 |
| Pension | 340,042 |
| Total Deferred Inflows of Resources | 4,711,052 |
| Net Position (Deficit) | |
| Net Investment in Capital Assets | 10,510,765 |
| Restricted for: | |
| Capital Projects | 175,110 |
| Debt Service | 683,426 |
| Classroom Facilities Maintenance | 238,446 |
| Local Programs | 65,196 |
| State Programs | 6,844 |
| Federal Programs | 1,359 |
| Food Service | 151,488 |
| Other Purposes | 11,000 |
| Unrestricted | (17,511,325) |
| <i>Total Net Position (Deficit)</i> | <i>(\$5,667,691)</i> |

See accompanying notes to the basic financial statements

Union Local School District
Statement of Activities
For the Fiscal Year Ended June 30, 2017

| | Program Revenues | | | Net (Expense) Revenue and Changes in Net Position |
|---|---------------------|---|---------------------------------------|--|
| | Expenses | Charges for Services and Sales | Operating Grants and Contributions | Governmental Activities |
| Governmental Activities | | | | |
| Instruction: | | | | |
| Regular | \$7,808,402 | \$1,399,992 | \$181,429 | (\$6,226,981) |
| Special | 2,533,364 | 0 | 1,328,487 | (1,204,877) |
| Vocational | 401,176 | 0 | 76,957 | (324,219) |
| Support Services: | | | | |
| Pupil | 686,519 | 0 | 10,984 | (675,535) |
| Instructional Staff | 520,839 | 0 | 106,021 | (414,818) |
| Board of Education | 79,691 | 0 | 0 | (79,691) |
| Administration | 1,057,172 | 0 | 134,306 | (922,866) |
| Fiscal | 442,247 | 0 | 17,712 | (424,535) |
| Operation and Maintenance of Plant | 1,489,467 | 610 | 50,853 | (1,438,004) |
| Pupil Transportation | 967,826 | 0 | 44,157 | (923,669) |
| Central | 2,646 | 0 | 0 | (2,646) |
| Operation of Non-Instructional Services | 2,516 | 0 | 2,495 | (21) |
| Food Service Operations | 485,192 | 133,199 | 317,993 | (34,000) |
| Extracurricular Activities | 391,857 | 106,677 | 0 | (285,180) |
| Interest and Fiscal Charges | 70,615 | 0 | 0 | (70,615) |
| <i>Total Governmental Activities</i> | <u>\$16,939,529</u> | <u>\$1,640,478</u> | <u>\$2,271,394</u> | <u>(13,027,657)</u> |
| | | General Revenues | | |
| | | Property Taxes Levied for General Purposes | 4,740,293 | |
| | | Property Taxes Levied for Debt Service | 64,733 | |
| | | Property Taxes Levied for Classroom Facilities Maintenance | 81,497 | |
| | | Grants and Entitlements not Restricted to Specific Programs | 7,854,823 | |
| | | Gifts and Donations | 24,516 | |
| | | Investment Earnings | 12,666 | |
| | | Miscellaneous | 51,440 | |
| | | <i>Total General Revenues</i> | <u>12,829,968</u> | |
| | | Change in Net Position | | (197,689) |
| | | <i>Net Position Beginning of Year</i> | | <u>(5,470,002)</u> |
| | | <i>Net Position End of Year</i> | | <u><u>(\$5,667,691)</u></u> |

See accompanying notes to the basic financial statements

Union Local School District
Balance Sheet
Governmental Funds
June 30, 2017

| | General | Other Governmental Funds | Total Governmental Funds |
|--|--------------------|--------------------------------|--------------------------------|
| Assets | | | |
| Equity in Pooled Cash and Cash Equivalents | \$2,329,611 | \$2,154,744 | \$4,484,355 |
| Restricted Assets: | | | |
| Equity in Pooled Cash and Cash Equivalents | 11,000 | 0 | 11,000 |
| Receivables: | | | |
| Property Taxes | 4,824,194 | 67,803 | 4,891,997 |
| Accounts | 5,337 | 289 | 5,626 |
| Intergovernmental | 280,559 | 221,597 | 502,156 |
| Interfund | 138,112 | 0 | 138,112 |
| Prepaid Items | 25,238 | 1,872 | 27,110 |
| Materials and Supplies Inventory | 9,035 | 69,676 | 78,711 |
| <i>Total Assets</i> | <u>\$7,623,086</u> | <u>\$2,515,981</u> | <u>\$10,139,067</u> |
| Liabilities | | | |
| Accounts Payable | \$38,646 | \$20,688 | \$59,334 |
| Contracts Payable | 0 | 135,000 | 135,000 |
| Accrued Wages and Benefits | 1,315,828 | 107,577 | 1,423,405 |
| Matured Severance Payable | 3,556 | 0 | 3,556 |
| Interfund Payable | 0 | 138,112 | 138,112 |
| Intergovernmental Payable | 285,457 | 19,645 | 305,102 |
| Retainage Payable | 0 | 15,000 | 15,000 |
| <i>Total Liabilities</i> | <u>1,643,487</u> | <u>436,022</u> | <u>2,079,509</u> |
| Deferred Inflows of Resources | | | |
| Property Taxes | 4,311,047 | 59,963 | 4,371,010 |
| Unavailable Revenue | 344,847 | 22,494 | 367,341 |
| <i>Total Deferred Inflows of Resources</i> | <u>4,655,894</u> | <u>82,457</u> | <u>4,738,351</u> |
| Fund Balances | | | |
| Nonspendable: | | | |
| Inventories | 9,035 | 69,676 | 78,711 |
| Prepaid Items | 25,238 | 1,872 | 27,110 |
| Restricted for: | | | |
| Capital Outlay | 0 | 25,110 | 25,110 |
| Debt Service | 0 | 685,097 | 685,097 |
| Classroom Facilities Maintenance | 0 | 237,143 | 237,143 |
| Local Programs | 0 | 65,196 | 65,196 |
| Food Service Operations | 0 | 81,299 | 81,299 |
| Underground Storage Tank Premium | 11,000 | 0 | 11,000 |
| Committed to Capital Projects | 0 | 8,509 | 8,509 |
| Assigned to: | | | |
| Purchases on Order | 913,574 | 0 | 913,574 |
| Capital Projects | 0 | 837,947 | 837,947 |
| Unassigned (Deficit) | 364,858 | (14,347) | 350,511 |
| <i>Total Fund Balances</i> | <u>1,323,705</u> | <u>1,997,502</u> | <u>3,321,207</u> |
| <i>Total Liabilities, Deferred Inflows of Resources, and Fund Balances</i> | <u>\$7,623,086</u> | <u>\$2,515,981</u> | <u>\$10,139,067</u> |

See accompanying notes to the basic financial statements

Union Local School District
*Reconciliation of Total Governmental Fund Balances
to Net Position of Governmental Activities
June 30, 2017*

Total Governmental Fund Balances \$3,321,207

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

Capital assets used in governmental activities are not financial
resources and therefore are not reported in the funds. 11,766,121

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

| | | |
|-------------------|---------|---------|
| Intergovernmental | 21,191 | |
| Property Taxes | 256,403 | |
| Tuition and Fees | 89,747 | |
| | | |
| Total | | 367,341 |

In the statement of activities, interest is accrued on outstanding bonds and notes, whereas
in the governmental funds, an interest expenditure is reported when due. (1,671)

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

| | | |
|---|---------|-------------|
| General Obligation Capital Appreciation Bonds | 264,996 | |
| Capital Appreciation Bond Accretion | 339,029 | |
| Bond Premium | 23,360 | |
| General Obligation Term Bonds | 680,000 | |
| Capital Leases | 137,000 | |
| Compensated Absences | 603,253 | |
| | | |
| Total | | (2,047,638) |

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

| | | |
|-----------------------------|--------------|---------------------|
| Deferred Outflows - Pension | 4,737,413 | |
| Net Pension Liability | (23,470,422) | |
| Deferred Inflows - Pension | (340,042) | |
| | | |
| Total | | <u>(19,073,051)</u> |

Net Position of Governmental Activities (\$5,667,691)

See accompanying notes to the basic financial statements

Union Local School District
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2017

| | General | Other Governmental Funds | Total Governmental Funds |
|---|--------------------|--------------------------------|--------------------------------|
| Revenues | | | |
| Property Taxes | \$4,869,491 | \$160,893 | \$5,030,384 |
| Intergovernmental | 8,616,775 | 1,510,071 | 10,126,846 |
| Interest | 12,137 | 529 | 12,666 |
| Tuition and Fees | 1,279,258 | 0 | 1,279,258 |
| Extracurricular Activities | 7,741 | 98,936 | 106,677 |
| Rent | 610 | 0 | 610 |
| Gifts and Donations | 3,041 | 21,475 | 24,516 |
| Charges for Services | 0 | 133,199 | 133,199 |
| Miscellaneous | 33,450 | 17,990 | 51,440 |
| <i>Total Revenues</i> | <u>14,822,503</u> | <u>1,943,093</u> | <u>16,765,596</u> |
| Expenditures | | | |
| Current: | | | |
| Instruction: | | | |
| Regular | 6,883,370 | 186,045 | 7,069,415 |
| Special | 1,685,294 | 637,846 | 2,323,140 |
| Vocational | 362,614 | 0 | 362,614 |
| Support Services: | | | |
| Pupil | 635,170 | 12,644 | 647,814 |
| Instructional Staff | 335,430 | 132,073 | 467,503 |
| Board of Education | 79,691 | 0 | 79,691 |
| Administration | 844,390 | 134,184 | 978,574 |
| Fiscal | 407,064 | 4,569 | 411,633 |
| Operation and Maintenance of Plant | 1,303,297 | 124,164 | 1,427,461 |
| Pupil Transportation | 902,234 | 60,140 | 962,374 |
| Central | 13,800 | 0 | 13,800 |
| Operation of Non-Instructional Services | 0 | 2,516 | 2,516 |
| Food Service Operations | 0 | 392,369 | 392,369 |
| Extracurricular Activities | 226,994 | 117,425 | 344,419 |
| Capital Outlay | 18,645 | 191,087 | 209,732 |
| Debt Service: | | | |
| Principal Retirement | 116,583 | 315,000 | 431,583 |
| Interest and Fiscal Charges | 30,638 | 6,300 | 36,938 |
| <i>Total Expenditures</i> | <u>13,845,214</u> | <u>2,316,362</u> | <u>16,161,576</u> |
| <i>Excess of Revenues Over (Under) Expenditures</i> | <u>977,289</u> | <u>(373,269)</u> | <u>604,020</u> |
| Other Financing Sources (Uses) | | | |
| Transfers In | 0 | 986,060 | 986,060 |
| Transfers Out | (986,060) | 0 | (986,060) |
| Total Other Financing Sources (Uses) | <u>(986,060)</u> | <u>986,060</u> | <u>0</u> |
| <i>Net Change in Fund Balances</i> | (8,771) | 612,791 | 604,020 |
| <i>Fund Balances Beginning of Year</i> | <u>1,332,476</u> | <u>1,384,711</u> | <u>2,717,187</u> |
| <i>Fund Balances End of Year</i> | <u>\$1,323,705</u> | <u>\$1,997,502</u> | <u>\$3,321,207</u> |

See accompanying notes to the basic financial statement:

Union Local School District
*Reconciliation of the Changes in Fund Balances
of Governmental Funds to the Statement of Activities
For the Fiscal Year Ended June 30, 2017*

| | | |
|--|------------------|---------------------------|
| Net Change in Fund Balances - Total Governmental Funds | | \$604,020 |
| <i>Amounts reported for governmental activities in the Statement of Activities are different because</i> | | |
| Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlay in the current period. | | |
| Capital Assets Additions | 395,860 | |
| Depreciation | <u>(826,385)</u> | |
| Total | | (430,525) |
| Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenue in the funds: | | |
| Intergovernmental | (629) | |
| Property Taxes | (143,861) | |
| Tuition and Fees | <u>120,734</u> | |
| Total | | (23,756) |
| Repayment of principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position. | | |
| General Obligation Bonds | 355,000 | |
| Capital Leases | <u>76,583</u> | |
| Total | | 431,583 |
| Interest is reported as an expenditure when due in the governmental funds, but is accrued on outstanding debt on the Statement of Activities, and the accretion of interest of capital appreciation bonds is reported in the Statement of Activities | | |
| Accrued Interest | 633 | |
| Accretion on Capital Appreciation Bonds | <u>(47,052)</u> | |
| Total | | (46,419) |
| Bond premiums are reported as other financing sources in the governmental funds, but are allocated as an expense over the life of the bonds on the Statement of Activities. | | |
| | | 12,742 |
| Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. | | |
| Compensated Absences | | 17,973 |
| Contractually required contributions are reported as expenditures in the governmental funds; however, the Statement of Net Position reports these amounts as deferred outflows. | | |
| | | 1,155,046 |
| Except for amounts reported as deferred inflows/outflows, changes in net pension liability are reported as pension expense in the Statement of Activities. | | |
| | | <u>(1,918,353)</u> |
| <i>Changes in Net Position of Governmental Activities</i> | | <u><u>(\$197,689)</u></u> |

See accompanying notes to the basic financial statements

Union Local School District
Statement of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP Basis) and Actual
General Fund
For the Fiscal Year Ended June 30, 2017

| | Original Budget | Final Budget | Actual | Variance with Final Budget |
|--|--------------------|--------------------|--------------------|-------------------------------|
| Revenues | | | | |
| Property Taxes | \$3,845,000 | \$5,020,152 | \$5,020,152 | \$0 |
| Intergovernmental | 8,572,194 | 8,600,455 | 8,600,455 | 0 |
| Interest | 12,000 | 10,916 | 10,916 | 0 |
| Tuition and Fees | 1,333,900 | 1,417,341 | 1,417,341 | 0 |
| Extracurricular Activities | 8,700 | 7,741 | 7,741 | 0 |
| Rent | 1,000 | 610 | 610 | 0 |
| Gifts and Donations | 3,500 | 3,041 | 3,041 | 0 |
| Miscellaneous | 28,750 | 28,103 | 28,113 | 10 |
| <i>Total Revenues</i> | <u>13,805,044</u> | <u>15,088,359</u> | <u>15,088,369</u> | <u>10</u> |
| Expenditures | | | | |
| Current: | | | | |
| Instruction: | | | | |
| Regular | 6,855,534 | 6,917,426 | 6,856,480 | 60,946 |
| Special | 1,810,419 | 1,816,245 | 1,747,078 | 69,167 |
| Vocational | 410,874 | 433,874 | 378,663 | 55,211 |
| Student Intervention Services | 4,640 | 4,640 | 0 | 4,640 |
| Support Services: | | | | |
| Pupil | 534,835 | 658,395 | 643,933 | 14,462 |
| Instructional Staff | 325,022 | 374,821 | 351,884 | 22,937 |
| Board of Education | 107,059 | 123,359 | 115,567 | 7,792 |
| Administration | 892,281 | 903,581 | 854,104 | 49,477 |
| Fiscal | 396,844 | 442,344 | 427,254 | 15,090 |
| Operation and Maintenance of Plant | 1,424,927 | 1,539,127 | 1,462,291 | 76,836 |
| Pupil Transportation | 932,528 | 965,328 | 931,411 | 33,917 |
| Central | 13,850 | 13,850 | 13,800 | 50 |
| Extracurricular Activities | 221,882 | 239,392 | 224,326 | 15,066 |
| Capital Outlay | 41,223 | 41,223 | 30,730 | 10,493 |
| Debt Service: | | | | |
| Principal Retirement | 0 | 105,707 | 105,000 | 707 |
| Interest and Fiscal Charges | 0 | 28,652 | 29,359 | (707) |
| <i>Total Expenditures</i> | <u>13,971,918</u> | <u>14,607,964</u> | <u>14,171,880</u> | <u>436,084</u> |
| Excess of Revenues Over (Under) Expenditures | <u>(166,874)</u> | <u>480,395</u> | <u>916,489</u> | <u>436,094</u> |
| Other Financing Sources (Uses) | | | | |
| Advances In | 59,903 | 59,904 | 59,904 | 0 |
| Advances Out | 0 | (150,000) | (138,112) | 11,888 |
| Transfers In | 100,000 | 269,133 | 0 | (269,133) |
| Transfers Out | (2,093,236) | (2,770,638) | (986,060) | 1,784,578 |
| Total Other Financing Sources (Uses) | <u>(1,933,333)</u> | <u>(2,591,601)</u> | <u>(1,064,268)</u> | <u>1,527,333</u> |
| <i>Net Change in Fund Balance</i> | <u>(2,100,207)</u> | <u>(2,111,206)</u> | <u>(147,779)</u> | <u>1,963,427</u> |
| <i>Fund Balance Beginning of Year</i> | 1,650,013 | 1,650,013 | 1,650,013 | 0 |
| Prior Year Encumbrances Appropriated | <u>461,193</u> | <u>461,193</u> | <u>461,193</u> | <u>0</u> |
| <i>Fund Balance End of Year</i> | <u>\$10,999</u> | <u>\$0</u> | <u>\$1,963,427</u> | <u>\$1,963,427</u> |

See accompanying notes to the basic financial statement:

Union Local School District
Statement of Net Position
Fiduciary Funds
June 30, 2017

| | Private Purpose Trust Fund | Agency |
|--|-------------------------------|----------|
| Assets | | |
| Equity in Pooled Cash and Cash Equivalents | \$22,486 | \$42,069 |
| | | |
| Liabilities | | |
| Undistributed Monies | 0 | \$8,738 |
| Due to Students | 0 | 33,331 |
| | | |
| <i>Total Liabilities</i> | 0 | \$42,069 |
| | | |
| Net Position | | |
| Held in Trust for Scholarships | 22,486 | |
| | | |
| <i>Total Net Position</i> | \$22,486 | |

See accompanying notes to the basic financial statements

Union Local School District
Statement of Changes in Net Position
Fiduciary Fund
For the Fiscal Year Ended June 30, 2017

| | Private Purpose Trust Fund |
|--|-------------------------------|
| Additions | |
| Contributions and Donations | \$19,574 |
| Deductions | |
| Payments in Accordance with Trust Agreements | 22,000 |
| <i>Change in Net Position</i> | (2,426) |
| <i>Net Position Beginning of Year</i> | 24,912 |
| <i>Net Position End of Year</i> | \$22,486 |

See accompanying notes to the basic financial statements

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Union Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

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

The School District was established in 1952 through the consolidation of the Union Township, Smith Local, Belmont, Bethesda, Lafferty, and Holloway schools. In 1968, the new Union Local School District was formed when the Flushing School District joined the consolidation. The combined high school, Union Local High School, was built in 1958, with the first class graduating in 1960. In the fall of 1998, the School District finished construction of a new high school. In the fall of 1999, construction of a new elementary school was complete, as well as renovations to the old high school which was converted into the middle school. It is located in Belmont County, and includes all of the Villages of Morristown, Belmont, Centerville, Bethesda, and Flushing. It is staffed by 58 non-certificated employees, 105 certificated full-time teaching personnel, and 15 administrative employees who provide services to 1,551 students. The School District currently operates two instructional/administrative buildings, one garage and one maintenance building.

Reporting Entity:

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

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

The School District is involved with the Ohio Mid-Eastern Regional Educational Service Agency Information Technology Center Regional Council of Governments (Council), and the Belmont-Harrison Vocational School District, which are defined as jointly governed organizations, the Ohio School Boards Association Workers' Compensation Group Rating Plan (GRP) which is defined as an insurance purchasing pool, and the Stark County Schools' Council of Governments Health Benefits Program (Council), which is defined as a shared risk insurance purchasing pool. These organizations are presented in Notes 17 and 18 to the financial statements.

Union Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Basis of Presentation

The School District's general purpose financial statements consist of government-wide statements, including a Statement of Net Position and a Statement of Activities, and fund financial statements which provide a more detailed level of financial information.

Government-wide Financial Statements The Statement of Net Position and the Statement of Activities display information about the School District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. These statements usually distinguish between those activities of the School District that are governmental (primarily supported by taxes and intergovernmental revenues) and those that are considered business-type activities (primarily supported by fees and charges). The School District, however; has no business-type activities.

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

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

B. Fund Accounting

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

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

Union Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

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

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

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

C. Measurement Focus

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

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

The private purpose trust fund is reported using the economic resources measurement focus.

D. Basis of Accounting

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

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

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

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

Deferred Outflows/Inflows of Resources In addition to assets, the statements of financial position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources, represent a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. For the School District, deferred outflows of resources are reported on the government-wide statement of net position for deferred charges on refunding and for pension. A deferred charge on refunding results from the difference in the carrying value of the refunded debt and its reacquisition price. The amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. The deferred outflows of resources related to pension are explained in Note 11.

In addition to liabilities, the statements of financial position report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized until that time. For the School District, deferred inflows of resources include property taxes, pension and unavailable revenue. Property taxes represent amounts for which there is an enforceable legal claim as of June 30, 2017, but which were levied to finance 2018 operations. These amounts have been recorded as a deferred inflow on both the government-wide Statement of Net Position and the Governmental Fund Financial Statements. Unavailable revenue is reported only on the governmental funds balance sheet, and represents receivables which will not be collected within the available period. For the School District unavailable revenue includes delinquent property taxes, tuition and fees, and intergovernmental grants. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available. The details of these unavailable revenues are identified on the Reconciliation of Total Governmental Fund Balance to Net Position of Governmental Activities found on page 18. Deferred inflows of resources related to pension are reported on the government-wide Statement of Net Position. See Note 11 for more information.

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

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

E. Pensions

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

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F. Cash and Cash Equivalents

To improve cash management, all cash received by the School District is pooled. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through School District records. Interest in the pool is presented as “Equity in Pooled Cash and Cash Equivalents.”

During fiscal year 2017, the School District had no investments.

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 2017 amounted to \$12,137, which includes \$4,105 assigned from other School District funds.

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

G. Restricted Assets

Assets are reported as restricted assets when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either externally imposed by creditors, contributors, grantors, or laws of other governments or are imposed by law through constitutional provisions or enabling legislation. Restricted assets in governmental funds represent cash restricted for insurance premiums related to the underground storage tank.

H. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2017, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

I. Inventory

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

J. Capital Assets

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

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

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

| <u>Description</u> | <u>Estimated Lives</u> |
|----------------------------|------------------------|
| Land and Land Improvements | N/A |
| Land Improvements | 20 Years |
| Buildings and Improvements | 5 - 50 Years |
| Furniture and Equipment | 5-20 Years |
| Vehicles | 5-20 Years |

K. Interfund Balances

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

L. Compensated Absences

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

Sick leave benefits are accrued as a liability using the termination method. An accrual for earned sick leave is made to the extent it is probable that benefits will result in termination payments. The liability is an estimate based on the School District's past experience of making termination payments.

The entire sick leave benefit liability is reported on the government-wide financial statements.

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

M. Accrued Liabilities and Long-Term Obligations

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

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

Union Local School District
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N. Bond Premiums, Bond Discounts, and Bond Issuance Costs

On the government wide financial statements, bond insurance premiums, bond premiums and bond discounts are amortized over the term of the bonds using the straight line method, which approximates the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. On the governmental fund financial statements bond insurance premiums, bond premiums, bond discounts and bond issuance costs are recognized in the period in which the bonds are issued.

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

Bond issuance costs are expensed in in the funds in the period the bonds are issued.

O. Internal Activity

Transfers within government activities on the government-wide financial statements are reported in the same manner as general revenue.

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

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

P. Fund Balance

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

Non-spendable: The non-spendable fund balance category includes amounts that cannot be spent because they are not in spendable form, or legally or contractually required to be maintained intact. The “not in spendable form” includes items that are not expected to be converted to cash.

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

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

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

Assigned: Amounts in the assigned fund balance classification are intended to be used by the School District for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the General Fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the General Fund, assigned amounts represent intended uses established by the School District Board of Education or a School District official delegated that authority by resolution or by State Statute. The amount assigned to Capital Projects in the other governmental funds represents transfers of General Fund resources approved by the Board of Education to be used for capital projects.

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

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

Q. Net Position

Net position represents the difference between assets and liabilities. Net investment in capital assets, consist of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net position are reported as restricted when there are limitations imposed on its use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Net position restricted for other purposes include resources from local sources restricted to expenditures for student programs.

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

R. Extraordinary and Special Items

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

Union Local School District
Notes to the Basic Financial Statements
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S. Estimates

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

T. Budgetary Data

All funds, other than agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the appropriation resolution and the certificate of estimated resources, which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amounts that the Board of Education may appropriate. The appropriation resolution is the Board's authorization to spend resources and set annual limits on expenditures plus encumbrances at a level of control selected by the Board. The legal level of control has been established by the Board of Education at the fund level for all funds of the School District. Any budgetary modifications at this level may only be made by resolution of the Board of Education. The treasurer is given the authority to further allocate fund appropriations within all funds. Advances in/out are not required to be budgeted since they represent a temporary cash flow resource and are intended to be repaid.

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

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

NOTE 3 - CHANGES IN ACCOUNTING PRINCIPLE

For fiscal year 2017, the School District implemented Governmental Accounting Standards Board (GASB) Statement No. 77, *Tax Abatement Disclosures*. GASB Statement No. 77 requires disclosure of information about the nature and magnitude of tax abatements. These changes were incorporated in the School District's 2017 financial statements; however, the School District had no abatement that met the GASB 77 definition.

The School District also implemented GASB's *Implementation Guide No. 2016-1*. These changes were incorporated in the School District's fiscal year 2017 financial statements; however, there was no effect on beginning net position/fund balance.

NOTE 4 - BUDGETARY BASIS OF ACCOUNTING

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

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The major differences between the budget basis and GAAP basis are that:

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures (budget basis) rather than restricted, committed, or unassigned fund balance (GAAP basis).
4. Advances in and advances out are operating transactions (budget basis) as opposed to balance sheet transactions (GAAP basis).
5. Unrecorded cash represents amounts not included on the budgetary statement, but reported on the operating statement prepared using GAAP. The reconciled difference between the beginning and the end of the year is reflected in the following table.

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

Net Change in Fund Balance

| | General |
|----------------------|-------------|
| GAAP Basis | (\$8,771) |
| Revenue Accruals | 267,087 |
| Advances In | 59,904 |
| Unrecorded Cash | (1,221) |
| Expenditure Accruals | 49,297 |
| Advances Out | (138,112) |
| Encumbrances | (375,963) |
| Budget Basis | (\$147,779) |

NOTE 5 - DEPOSITS AND INVESTMENTS

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

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

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

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

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

1. United States Treasury bills, bonds notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including, but not limited to, Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, and Government National Mortgage Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. No-load money market mutual funds consisting exclusively of obligations described in (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
4. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
5. Bonds and other obligations of the State of Ohio, and with certain limitations bonds and other obligations of political subdivisions of the State of Ohio;
6. The State Treasurer's investment pool (STAR Ohio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred eighty days in an amount not to exceed 40 percent of the interim monies available for investment at any one time if training requirements have been met; and
8. Written repurchase agreements in the securities described in (1) or (2) provided the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and the term of the agreement must not exceed thirty days.

Deposits

Custodial credit risk for deposits is the risk that in the event of bank failure, the School District will not be able to recover deposits or collateral securities that are in the possession of an outside party. At year end, the bank balance was \$4,723,023. Of the bank balance \$250,000 was covered by Federal depository insurance and the remaining balance of \$4,473,023 was covered by pledged collateral with securities held by the pledging financial institution's trust department or agent. Although the securities were held by the pledging financial institution's trust department and all statutory requirements for the deposit of money had been followed, non-compliance with Federal requirements could potentially subject the School District to a successful claim by the Federal Deposit Insurance Corporation.

Union Local School District
Notes to the Basic Financial Statements
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The School District has no deposit policy for custodial credit risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the School District or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least one hundred five percent of the deposits being secured. Effective July 1, 2017, the Ohio Pooled Collateral System (OPCS) was implemented by the Office of the Ohio Treasurer of State. Financial institutions can elect to participate in the OPCS and will collateralize at 102 percent or a rate set by the Treasurer of State. Financial institution opting not to participate in OPCS will collateralize utilizing the specific pledge method at 105 percent.

NOTE 6 - PROPERTY TAXES

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

Property taxes include amounts levied against all real and public utility property located in the School District. Real property tax revenue received in calendar 2017 represents collections of calendar year 2016 taxes. Real property taxes received in calendar year 2017 were levied after April 1, 2016, on the assessed value listed as of January 1, 2016, the lien date. Assessed values for real property taxes are established by State law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar year 2017 represents collections of calendar year 2016 taxes. Public utility real and tangible personal property taxes received in calendar year 2017 became a lien December 31, 2015, were levied after April 1, 2016 and are collected with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

The School District receives property taxes from Belmont County and Harrison County. The County Auditors periodically advances to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2017, are available to finance fiscal year 2017 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

The amount available as an advance at June 30, 2017 was \$424,703 in the General Fund, and \$6,537 in the Classroom Facilities Maintenance Special Revenue Fund. The amount available as an advance at June 30, 2016 was \$575,364 in the General Fund, \$41,594 in the Debt Service Fund, and \$9,267 in the Classroom Facilities Maintenance Special Revenue Fund.

Accrued property taxes receivable includes real property and public utility property taxes which were measurable as of June 30, 2017 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred inflows of resources – property taxes.

On an accrual basis, collectible delinquent property taxes have been recorded as a receivable and revenue, while on a modified accrual basis the revenue has been reported as deferred inflows of resources – unavailable revenue. The assessed values upon which the fiscal year 2017 taxes were collected are:

Union Local School District
Notes to the Basic Financial Statements
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| | 2016 Second Half Collections | | 2017 First Half Collections | |
|-------------------------|---------------------------------|---------|--------------------------------|---------|
| | Amount | Percent | Amount | Percent |
| Real Estate | \$211,906,760 | 94.89% | \$248,352,050 | 94.10% |
| Public Utility Personal | 11,422,030 | 5.11% | 15,563,530 | 5.90% |
| | \$223,328,790 | 100.00% | \$263,915,580 | 100.00% |

| | | |
|--|---------|---------|
| Tax Rate per \$1,000 of assessed valuation | \$29.95 | \$27.55 |
|--|---------|---------|

The decrease in tax rate is due to the School District no longer collecting the Bond Retirement levy.

NOTE 7 - RECEIVABLES

Receivables at June 30, 2017, consisted of property taxes, tuition and fees, interfund, and intergovernmental grants. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current year guarantee of federal funds. Delinquent property taxes deemed collectible by the County Auditor and recorded as a receivable in the amount of \$89,747 may not be collected within one year. All other receivables are expected to be collected within one year. A summary of the principal items of intergovernmental receivables follows:

| Governmental Activities: | Amounts |
|--|----------------|
| Title II-A Grant | \$13,549 |
| Early Childhood Education Grant | 35,105 |
| Early Childhood Special Education Grant | 6,360 |
| Title I Grant | 51,769 |
| IDEA B Grant | 67,507 |
| 21st Century Grant | 45,351 |
| Bureau of Workers' Compensation Rebate | 21,916 |
| State of Ohio Rebate | 1,249 |
| Belmont County Board of Developmental Disabilities | 2,947 |
| Excess Costs from Other School Districts | 256,403 |
| Total Intergovernmental Receivable | \$502,156 |

NOTE 8 - INTERNAL BALANCES AND TRANSFERS

A. Interfund Balances

Interfund balances at June 30, 2017 consisted of the following individual interfund receivables and payables:

Union Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

| | |
|------------------------------------|-----------------------------|
| | <u>Interfund Receivable</u> |
| <u>Intrrfund Payable</u> | <u>General Fund</u> |
| Other Non-Major Governmental Funds | \$138,112 |

The loans made to the Miscellaneous State Grants, Title I, and the Miscellaneous Federal Grants Special Revenue Funds were made to support the programs until grant monies are received to operate the programs.

B. Transfers

Interfund transfers for the year ended June 30, 2017 consisted of a transfer from the General Fund to the Capital Projects Fund in the amount of \$986,060.

NOTE 9 - CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2017, was as follows:

| | Balance 6/30/16 | Additions | Deletions | Balance 6/30/17 |
|--|---------------------|--------------------|-----------------|---------------------|
| Nondepreciable Capital Assets: | | | | |
| Land and Land Improvements | \$1,842,760 | \$0 | \$0 | \$1,842,760 |
| Construction in Progress | 9,757 | 150,000 | 0 | 159,757 |
| Total Nondepreciable Capital Assets | 1,852,517 | 150,000 | 0 | 2,002,517 |
| Depreciable Capital Assets: | | | | |
| Land Improvements | 141,341 | 0 | 0 | 141,341 |
| Buildings and Improvements | 21,229,867 | 35,085 | 0 | 21,264,952 |
| Furniture and Equipment | 394,934 | 54,625 | 0 | 449,559 |
| Vehicles | 1,349,279 | 156,150 | (96,414) | 1,409,015 |
| Total Depreciable Capital Assets | 23,115,421 | 245,860 | (96,414) | 23,264,867 |
| Accumulated Depreciation: | | | | |
| Land Improvements | (33,765) | (9,423) | 0 | (43,188) |
| Buildings and Improvements | (11,724,313) | (679,491) | 0 | (12,403,804) |
| Furniture and Equipment | (232,736) | (46,892) | 0 | (279,628) |
| Vehicles | (780,478) | (90,579) | 96,414 | (774,643) |
| Total Accumulated Depreciation | (12,771,292) | (826,385) | 96,414 | (13,501,263) |
| Total Depreciable Capital Assets, Net | 10,344,129 | (580,525) | 0 | 9,763,604 |
| Governmental Capital Assets, Net | \$12,196,646 | (\$430,525) | \$0 | \$11,766,121 |

Depreciation expense was charged to governmental activities as follows:

Union Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

| | |
|------------------------------------|------------------|
| Instruction: | |
| Regular | \$452,789 |
| Special | 83,872 |
| Vocational | 22,203 |
| Support Services: | |
| Pupil | 9,993 |
| Instructional Staff | 19,985 |
| Administration | 19,985 |
| Fiscal | 9,993 |
| Operation of Maintenance and Plant | 24,725 |
| Pupil Transportation | 109,031 |
| Extracurricular | 43,165 |
| Food Service Operations | 30,644 |
| Total Depreciation Expense | <u>\$826,385</u> |

NOTE 10 - RISK MANAGEMENT

A. Property, Fleet and Liability Insurance

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The School District contracts with Liberty Mutual Insurance for general liability, errors and omissions, property, and fleet insurance.

The general liability coverage has limits of liability of \$1,000,000 for each occurrence and an annual aggregate of \$3,000,000. The errors and omissions coverage has limits of liability of \$1,000,000 for each wrongful act with an annual aggregate of \$1,000,000. The property coverage carries a \$1,000 deductible with total coverage of \$46,952,929. The fleet coverage has limits of liability of \$1,000,000 for each accident with a \$1,000 deductible.

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

B. Employee Benefits

The School District has contracted with the Stark County Schools' Council of Government Health Benefits Program (Council) to provide employee medical/surgical and dental, and vision benefits. The Council's Health Benefits Program is a shared risk pool comprised of 74 member school districts, educational service centers and related agencies, see Note 18 for further information about the Council. Rates are set through an annual calculation process. The School District pays a monthly contribution which is paid in a common fund from which claim payments are made for all participants regardless of claims flow. The board of directors has the right to return monies to an existing school district subsequent to the settlements of all expenses and claims. Premiums for this coverage are \$718.90 for individual coverage per month and \$1,746.37 for family coverage per month. Employees contribute \$71.89 per month for single coverage and \$174.64 per month for family coverage, with the Board paying the balance of the premium. The premium is paid from the fund that pays the salary of the covered employee. Dental premiums are \$91.28 for individual coverage per month and \$225.22 for family coverage per month. Employees contribute \$9.13 per month for single coverage and \$22.52 per month for family coverage, with the Board paying the balance of the premium. Premiums for the vision coverage are \$19.48 for individual coverage per month and \$47.83 for family coverage per month. Employees contribute \$1.95 per month for single coverage and \$4.78 month for family coverage, with the Board paying the balance of the premium.

Union Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

C. Workers' Compensation

For fiscal year 2017 the School District participated in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (Note 18). The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. CompManagement, Inc. provides administrative, cost control and actuarial services to the GRP.

NOTE 11 - DEFINED BENEFIT PENSION PLANS

Net Pension Liability

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

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

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

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

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

Union Local School District
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Plan Description - School Employees Retirement System (SERS)

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

Age and service requirements for retirement are as follows:

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

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

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

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

Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS’ Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System’s funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2017, the allocation to pension, death benefits, and Medicare B was 14 percent. No allocation was made to the Health Care Fund.

The School District’s contractually required contribution to SERS was \$268,383 for fiscal year 2017. Of this amount \$12,541 is reported as an intergovernmental payable.

Plan Description - State Teachers Retirement System (STRS)

Plan Description – School District licensed teachers and other faculty members participate in STRS Ohio, a cost-sharing multiple employer public employee 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.

Union Local School District
Notes to the Basic Financial Statements
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New members have a choice of three retirement plans; a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan, and a Combined Plan. Benefits are established by Ohio Revised Code Chapter 3307.

The DB plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service. Effective August 1, 2015, the calculation is 2.2 percent of final average salary for the five highest years of earnings multiplied by all years of service. With certain exceptions, the basic benefit is increased each year by two percent of the original base benefit. For members retiring August 1, 2013, or later, the first two percent is paid on the fifth anniversary of the retirement benefit. Members are eligible to retire at age 60 with five years of qualifying service credit, or age 55 with 26 years of service, or 31 years of service regardless of age. Eligibility changes will be phased in until August 1, 2026, when retirement eligibility for unreduced benefits will be five years of service credit and age 65, or 35 years of service credit and at least age 60.

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

The Combined Plan offers features of both the DB Plan and the DC Plan. In the Combined Plan, 12 percent of the 14 percent member rate goes to the DC Plan and the remaining 2 percent is applied to the DB Plan. Member contributions to the DC Plan are allocated among investment choices by the member, and contributions to the DB Plan from the employer and the member are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60 with five years of service. The defined contribution portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity after termination of employment at age 50 or later.

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

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

Funding Policy – Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. For the fiscal year ended June 30, 2017, the employer rate was 14 percent and the plan members were also required to contribute 14 percent of covered salary. The statutory member contribution rate was increased one percent to 14 percent on July 1, 2016. The fiscal year 2017 contribution rates were equal to the statutory maximum rates.

The School District's contractually required contribution to STRS was \$886,663 for fiscal year 2017. Of this amount \$121,863 is reported as an intergovernmental payable.

Union Local School District
Notes to the Basic Financial Statements
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Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The School District's proportion of the net pension liability was based on the School District's share of contributions to the pension plan relative to the contributions of all participating entities. Following is information related to the proportionate share and pension expense:

| | <u>SERS</u> | <u>STRS</u> | <u>Total</u> |
|---|--------------------|--------------------|--------------|
| Proportion of the Net Pension Liability | | | |
| Prior Measurement Date | 0.05781720% | 0.05542771% | |
| Proportion of the Net Pension Liability | | | |
| Current Measurement Date | <u>0.06105640%</u> | <u>0.05676709%</u> | |
| Change in Proportionate Share | <u>0.00323920%</u> | <u>0.00133938%</u> | |
| Proportionate Share of the Net | | | |
| Pension Liability | \$4,468,766 | \$19,001,656 | \$23,470,422 |
| Pension Expense | \$551,443 | \$1,366,910 | \$1,918,353 |

At June 30, 2017, the School District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | <u>SERS</u> | <u>STRS</u> | <u>Total</u> |
|--|--------------------|--------------------|--------------------|
| Deferred Outflows of Resources | | | |
| Differences between expected and actual experience | \$60,274 | \$767,759 | \$828,033 |
| Changes of assumptions | 298,315 | 0 | 298,315 |
| Net difference between projected and actual earnings on pension plan investments | 368,608 | 1,577,648 | 1,946,256 |
| Changes in proportionate Share and difference between School District contributions and proportionate share of contributions | 214,768 | 294,995 | 509,763 |
| School District contributions subsequent to the measurement date | <u>268,383</u> | <u>886,663</u> | <u>1,155,046</u> |
| Total Deferred Outflows of Resources | <u>\$1,210,348</u> | <u>\$3,527,065</u> | <u>\$4,737,413</u> |
| Deferred Inflows of Resources | | | |
| Changes in Proportionate Share and Difference between School District contributions and proportionate share of contributions | <u>\$0</u> | <u>\$340,042</u> | <u>\$340,042</u> |

Union Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

\$1,155,046 reported as deferred outflows of resources related to pension resulting from School District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

| | SERS | STRS | Total |
|-----------------------------|-----------|-------------|-------------|
| Fiscal Year Ending June 30: | | | |
| 2018 | \$268,655 | \$331,750 | \$600,405 |
| 2019 | 268,389 | 331,749 | 600,138 |
| 2020 | 298,960 | 937,139 | 1,236,099 |
| 2021 | 105,961 | 699,722 | 805,683 |
| Total | \$941,965 | \$2,300,360 | \$3,242,325 |

Actuarial Assumptions - SERS

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

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

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

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of June 30, 2016, compared with June 30, 2015, are presented as follows:

Union Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

| | June 30, 2016 | June 30, 2015 |
|---|---|---|
| Wage Inflation | 3.00 percent | 3.25 percent |
| Future Salary Increases, including inflation | 3.50 percent to 18.20 percent | 4.00 percent to 22.00 percent |
| COLA or Ad Hoc COLA | 3 percent | 3 percent |
| Investment Rate of Return | 7.50 percent net of investments expense, including inflation | 7.75 percent net of investments expense, including inflation |
| Actuarial Cost Method | Entry Age Normal | Entry Age Normal |

For 2016, the mortality assumptions are that mortality rates were based on the RP-2014 Blue Collar Mortality Table with fully generational projection and a five year age set-back for both males and females. For 2015, the mortality assumptions were based on the 1994 Group Annuity Mortality Table set back one year for both men and women. Special mortality tables were used for the period after disability retirement.

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

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

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

Discount Rate The total pension liability was calculated using the discount rate of 7.50 percent. A discount rate of 7.75 percent was used in the prior measurement period. 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 (7.50 percent). Based on those assumptions, the plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability.

Union Local School District
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Sensitivity of the School District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net pension liability calculated using the discount rate of 7.50 percent, as well as what each plan's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.50 percent), or one percentage point higher (8.50 percent) than the current rate.

| | 1% Decrease (6.50%) | Current Discount Rate (7.50%) | 1% Increase (8.50%) |
|---|------------------------|-------------------------------------|------------------------|
| School District's proportionate share of the net pension liability | \$5,916,366 | \$4,468,766 | \$3,257,063 |

Actuarial Assumptions - STRS

The total pension liability in the June 30, 2016, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

| | |
|--------------------------------------|---|
| Inflation | 2.75 percent |
| Salary increases | 12.25 percent at age 20 to 2.75 percent at age 70 |
| Investment Rate of Return | 7.75 percent, net of investment expenses, including inflation |
| 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 commences 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 no set back from age 90 and above.

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

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

Union Local School District
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| <u>Asset Class</u> | <u>Target Allocation</u> | <u>Long-Term Expected Rate of Return *</u> |
|----------------------|------------------------------|--|
| Domestic Equity | 31.00 % | 8.00 % |
| International Equity | 26.00 | 7.85 |
| Alternatives | 14.00 | 8.00 |
| Fixed Income | 18.00 | 3.75 |
| Real Estate | 10.00 | 6.75 |
| Liquidity Reserves | 1.00 | 3.00 |
| Total | 100.00 % | 7.61 % |

* 10 year annualized geometric nominal returns include the real rate of return and inflation of 2.5 percent, and does not include investment expenses. The total fund long-term expected return reflects diversification among the asset classes and therefore is not a weighted average return of the individual asset classes.

Discount Rate The discount rate used to measure the total pension liability was 7.75 percent as of June 30, 2016. The projection of cash flows used to determine the discount rate assumes 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 of future plan members, are excluded. 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, 2016. 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, 2016.

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

| | 1% Decrease (6.75%) | Current Discount Rate (7.75%) | 1% Increase (8.75%) |
|---|------------------------|-------------------------------------|------------------------|
| School District's proportionate share of the net pension liability | \$25,251,657 | \$19,001,656 | \$13,729,412 |

Changes between Measurement Date and Report Date

In March 2017, the STRS Board adopted certain assumption changes which will impact their annual actuarial valuation prepared as of June 30, 2017. The most significant change is a reduction in the discount rate from 7.75 percent to 7.45 percent. In April 2017, the STRS Board voted to suspend cost of living adjustments granted on or after July 1, 2017. Although the exact amount of these changes is not known, the overall decrease to School District's NPL is expected to be significant.

Union Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System of Ohio have an option to choose Social Security or the School Retirement System. As of June 30, 2017, one member of the Board of Education has elected Social Security. The contribution rate is 6.2 percent of wages.

NOTE 12 - POSTEMPLOYMENT BENEFITS

A. School Employee Retirement System

Health Care Plan Description - The School District contributes to the SERS Health Care Fund, administered by SERS for non-certificated retirees and their beneficiaries. For GASB 45 purposes, this plan is considered a cost-sharing, multiple-employer, defined benefit other postemployment benefit (OPEB) plan. SERS offers several types of health plans from various vendors, including HMO's, PPO's, Medicare Advantage, and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrator and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively. The financial report of the Plan is included in the SERS Comprehensive Annual Financial Report which can be obtained on SERS' website at www.ohsers.org under Employers/Audit Resources.

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

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required pensions and benefits, the Retirement Board may allocate the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund in accordance with the funding policy. For fiscal year 2017, no allocation of covered payroll was made to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated if less than a full year of service credit was earned. For fiscal year 2017, this amount was \$23,500. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2017, the School District's surcharge obligation was \$33,920.

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 School District's contributions for health care for the fiscal years ended June 30, 2017, 2016, and 2015 were \$33,920, \$29,745, and \$40,107, respectively. For fiscal year 2017, the full amount is reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2016, and 2015.

Union Local School District
Notes to the Basic Financial Statements
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B. State Teachers Retirement System

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

Funding Policy – Ohio Revised Code Chapter 3307 authorizes STRS Ohio to offer the Plan and gives the Retirement Board discretionary authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Health Care Plan. Nearly all health care plan enrollees, for the most recent year, pay a portion of the health care costs in the form of a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For the fiscal years ended June 30, 2017, June 30, 2016 and June 30, 2015, STRS Ohio did not allocate any employer contributions to post-employment health care.

NOTE 13 - OTHER EMPLOYEE BENEFITS

A. Compensated Absences

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and State laws. Classified employees earn five to twenty days of vacation per fiscal year, depending upon length of service. Current policy permits vacation leave to be accumulated up to one year. Accumulated, unused vacation time is paid to classified employees and administrators upon termination of employment. Teachers and administrators who work less than 260 days 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 290 days for all certified employees and 280 days for all classified employees. Upon retirement, payment is made for one-fourth of accrued, but unused sick leave credit to a maximum of 72 days for certificated employees provided such certificated staff member has been continuously employed by the School District for nine years and 70 days for classified employees provided such classified employee has been continuously employed by the School District for seven years.

B. Other Insurance Benefits

The School District provides life insurance and accidental death and dismemberment insurance to all eligible employees through Consumers Life Insurance Company in the amount of \$40,000 per employee.

NOTE 14 - CAPITAL LEASES – LESSEE DISCLOSURE

During fiscal year 2009, the School District entered into a capital lease to finance capital improvement projects. The lease arrangements are through the OASBO Expanded Asset Pooled Financing Program with the Columbus Regional Airport Authority as the lessor. During fiscal year 2013, the School District also entered into a capital lease for copiers.

The assets acquired by the leases have been capitalized in government wide statements governmental activities as land, buildings and improvements, and furniture, fixtures and equipment in the amount of \$660,591, which is equal to the present value of the minimum lease payments at the time of acquisition. A corresponding liability was recorded in the government wide statements governmental activities for the total value of the lease. Governmental activities capitalized leased assets are reflected net of accumulated depreciation in the amount of \$354,558. Principal payments in fiscal year 2017 totaled \$76,583, in the governmental funds.

Union Local School District
Notes to the Basic Financial Statements
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Future minimum lease payments through 2019 are as follows:

| <u>Fiscal Year</u> | <u>Principal</u> | <u>Interest</u> |
|--------------------|------------------|-----------------|
| 2018 | \$67,000 | \$5,524 |
| 2019 | 70,000 | 2,636 |
| | <u>\$137,000</u> | <u>\$8,160</u> |

NOTE 15 - LONG - TERM OBLIGATIONS

The changes in the School District's long-term obligations during fiscal year 2017 were as follows:

| | <u>Outstanding 6/30/2016</u> | <u>Additions</u> | <u>Reductions</u> | <u>Outstanding 6/30/2017</u> | <u>Amounts Due Within One Year</u> |
|---|----------------------------------|--------------------|-------------------|----------------------------------|--|
| Governmental Activities: | | | | | |
| 2007 School Improvement Refunding Bonds | | | | | |
| Serial/Term Bonds \$1,365,000 @ 3.75% - 4.0% | \$315,000 | \$0 | \$315,000 | \$0 | \$0 |
| Capital Appreciation Bonds \$264,995 @ 4.3% - 4.35% | 264,996 | 0 | 0 | 264,996 | 137,872 |
| Accretion of Interest \$385,005 @ 8.284% | 291,977 | 47,052 | 0 | 339,029 | 187,128 |
| Premium \$152,903 | 36,102 | 0 | 12,742 | 23,360 | 0 |
| Total 2007 School Improvement Refunding Bonds | <u>908,075</u> | <u>47,052</u> | <u>327,742</u> | <u>627,385</u> | <u>325,000</u> |
| 2015 Energy Conservation and School Improvement Bonds | | | | | |
| Term Bonds \$740,000 @ 3.05% | 720,000 | 0 | 40,000 | 680,000 | 45,000 |
| Total General Obligation Bonds | <u>1,628,075</u> | <u>47,052</u> | <u>367,742</u> | <u>1,307,385</u> | <u>370,000</u> |
| Net Pension Liability * | | | | | |
| SERS | 3,299,106 | 1,169,660 | 0 | 4,468,766 | 0 |
| STRS | 15,318,598 | 3,683,058 | 0 | 19,001,656 | 0 |
| Total Net Pension Liability | <u>18,617,704</u> | <u>4,852,718</u> | <u>0</u> | <u>23,470,422</u> | <u>0</u> |
| Capital Leases | 213,583 | 0 | 76,583 | 137,000 | 67,000 |
| Compensated Absences | 621,226 | 155,655 | 173,628 | 603,253 | 96,646 |
| Total Long-Term Liabilities | <u>\$21,080,588</u> | <u>\$5,055,425</u> | <u>\$617,953</u> | <u>\$25,518,060</u> | <u>\$533,646</u> |

* For additional information related to the net pension liability, see Note 11.

2007 School Improvement Refunding Bonds - On May 8, 2007, the School District issued \$1,629,995 general obligation bonds, which included capital appreciation bonds in the amount of \$264,995. The bonds refunded \$1,629,995 of outstanding 1997 School Improvement Bonds. The serial bonds were issued at a 4.0 percent interest rate, for a period of nine years, with a final maturity of December 1, 2016. The term bonds were issued at a 3.75 percent interest rate, for a five year period, with a final maturity at December 1, 2012. At the date of refunding, \$1,720,030 (including premium and after underwriting fees, and other issuance costs) was deposited in an irrevocable trust to provide for all future debt service payments on the refunded 1997 School Improvement General Obligation Serial Bonds. The refunded bonds were called and fully repaid by December 1, 2007, through the escrow account.

Union Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

The capital appreciation bonds were sold at an original price of \$264,995, with maturity dates of December 1, 2017 and 2018. At maturity all compounded interest is paid and the bond holder collects the face value. However, since interest is earned and compounded semi-annually, the value of the bond increases. Therefore, as the value increases, the accretion is booked as a liability. The maturity amount of the bond is \$650,000. The accretion recorded for fiscal year 2017 is \$47,052 for a total bond liability of \$604,025. The accretion will continue to be recorded over the life of the bonds.

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

Principal and interest requirements to retire general obligation bonds for the 2007 Refunding Bonds outstanding at June 30, 2017 are as follows:

| Fiscal Year Ending June 30 | Serial Bonds | | Capital Appreciation Bonds | | Total | |
|-------------------------------|--------------|------------|----------------------------|------------------|------------------|-------------------------|
| | Principal | Interest | Principal | Accretion | Principal | Interest / Accretion |
| 2018 | \$0 | \$0 | \$137,872 | \$187,129 | \$137,871 | \$187,129 |
| 2019 | 0 | 0 | 127,124 | 197,876 | 127,124 | 197,876 |
| | <u>\$0</u> | <u>\$0</u> | <u>\$264,996</u> | <u>\$385,005</u> | <u>\$264,995</u> | <u>\$385,005</u> |

2015 Energy Conservation and School Improvement Bonds – On June 18, 2015, Union Local School District issued \$740,000 of general obligation bonds in accordance with House Bill 264. The bonds were issued to finance an energy conservation project. The term bonds were issued at a 3.05 percent interest rate, for a period of fourteen years with a final maturity of December 1, 2029.

The Term Bonds maturing on December 1, 2029 are subject to mandatory sinking fund redemption at the redemption price of 100% of the principal amount to be redeemed, plus accrued interest to the date of redemption, on December 1 of the and in the respective principal amounts as follows:

| Redemption Date (December 1) | Principal Amount to be Redeemed |
|---------------------------------|------------------------------------|
| 2017 | 45,000 |
| 2018 | 45,000 |
| 2019 | 45,000 |
| 2020 | 50,000 |
| 2021 | 50,000 |
| 2022 | 50,000 |
| 2023 | 50,000 |
| 2024 | 55,000 |
| 2025 | 55,000 |
| 2026 | 55,000 |
| 2027 | 60,000 |
| 2028 | 60,000 |

Union Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

The remaining principal amount of such Term Bonds (\$60,000) will mature at stated maturity on December 1, 2029.

The principal and interest requirements to retire the remaining general obligation bonds for the 2015 Energy Conservation and School Improvement Bonds are as follows:

| Fiscal Year <u>Ending June 30</u> | Term Bonds | |
|--------------------------------------|------------|-----------|
| | Principal | Interest |
| 2018 | \$45,000 | \$20,054 |
| 2019 | 45,000 | 18,681 |
| 2020 | 45,000 | 17,309 |
| 2021 | 50,000 | 15,860 |
| 2022 | 50,000 | 14,335 |
| 2023-2027 | 265,000 | 48,114 |
| 2028-2030 | 180,000 | 8,235 |
| | \$680,000 | \$142,588 |

The overall debt margin of the School District as of June 30, 2017 was \$23,486,114 with an unvoted debt margin of \$263,845.

There is no repayment schedule for the net pension liability. However, employer pension contributions are made from the following funds: General, Food Service, Miscellaneous State Grants, Miscellaneous Federal, 21st Century Grant and Title I. For additional information related to the net pension liability see Note 11.

Capital leases and compensated absences will be paid from the General Fund

NOTE 16 - COMMITMENTS

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

| | |
|------------------------------------|-------------|
| General | \$375,963 |
| Other Non-major Governmental Funds | 668,818 |
| Total | \$1,044,781 |

NOTE 17 - JOINTLY GOVERNED ORGANIZATIONS

Ohio Mid-Eastern Regional Educational Service Agency Information Technology Center Regional Council of Governments - The School District participates in the Ohio Mid-Eastern Regional Educational Service Agency Information Technology Center Regional Council of Governments (Council). The Council was created as a separate regional council of governments pursuant to State Statutes. The Council operates under the direction of a Board comprised of a representative from each participating school district. The Board exercised total control over the operations of the Council including budgeting, appropriating, contracting, and designating management.

Union Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

Each participant's control is limited to its representation on the Board. The Council provides information technology and internet access to member districts, as well as cooperative purchasing programs. During fiscal year 2017, the total amount paid to OME-RESA from the School District was \$37,972 for technology services, \$200 for in-service and co-op costs, and \$9,264 for financial accounting services and educational management information. The Jefferson County Educational Service Center serves as the fiscal agent. To obtain financial information write to Ohio Mid-Eastern Regional Educational Service Agency, Treasurer, at 2023 Sunset Blvd., Steubenville, Ohio 43952.

Belmont-Harrison Vocational School District - The Belmont-Harrison Vocational School District is a distinct political subdivision of the State of Ohio operated under the direction of a Board consisting of one representative from each of the seven participating school districts' elected boards. The Board exercises total control over the operations of the District including budgeting, appropriating, contracting, and designating management. Each participants control is limited to its representation on the Board. To obtain financial information write to the Belmont-Harrison Vocational School, Mark Lucas, who serves as Treasurer, at Fox Shannon Place, St. Clairsville, Ohio 43950.

NOTE 18 - PUBLIC ENTITY POOLS

A. Insurance Purchasing Pool

Ohio School Boards Association Workers' Compensation Group Rating Plan (GRP) – The School District participates in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool. The GRP's business and affairs are conducted by a three member Board of Directors consisting of the President, 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. The School District's enrollment fee of \$1,810 for policy year 2017 was paid to CompManagement, Inc.

B. Shared Risk Insurance Purchasing Pool

The Stark County Schools' Council of Government Health Benefits Program (Council) – The Stark County Schools' Council of Governments (Council) Health Benefits program is a shared risk pool created pursuant to State Statute for the purposes of administering health care benefits. The Council is governed by an assembly which consists of one representative from each participating school district (usually the superintendent or designee). The assembly elects officers for one year terms to serve on the Board of Directors. The assembly exercises control over the operation of the Council. All Council revenues are generated from charges for services received from the participating school districts, based on the established premiums for the insurance plans. Each school district reserves the right to terminate the plan in whole or in part, at any time. If it is terminated, no further contributions will be made, but the benefits under the insurance contract shall be paid in accordance with the terms of the contract.

NOTE 19 - SET-ASIDE CALCULATIONS AND FUND RESTRICTIONS

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

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

Union Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

| | Capital Improvements |
|--|-------------------------|
| Set-aside Restricted Balance as of June 30, 2016 | \$0 |
| Current Year Set-aside Requirement | 268,429 |
| Current Year Offsets | (1,114,827) |
| Current Year Qualifying Expenditures | (251,918) |
| Totals | (\$1,098,316) |
| Balance Carried Forward to Fiscal Year 2018 | \$0 |
| Set-aside Restricted Balance as of June 30, 2017 | \$0 |

The School District had qualifying transfers and disbursements during the fiscal year that reduced the set-aside amount for capital improvements to below zero that may not be carried forward to future years. The School District also has capital expenditures paid from debt proceeds in connection with an energy conservation project that may be carried forward to offset future set-aside requirements.

NOTE 20 - CONTINGENCIES

A. Grants

The School District received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2017.

B. State Foundation Funding

School District Foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. The funding formula the Ohio Department of Education (ODE) is legislatively required to follow will continue to adjust as enrollment information is updated by the School District, which can extend past the fiscal year-end.

C. Litigation

The School District is currently party to legal proceedings. The School District management is of the opinion that the disposition of claims will not have a material effect, if any, on the financial condition of the School District.

Union Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

D. Paid Up Oil and Gas Leases

Rice Drilling D, LLC, - On April 30, 2013, the Board of Education entered into a “Paid Up” Oil and Gas Lease. The lease is for 35.932 acres of property that the Union Local Board of Education owns a 50 percent share of the mineral rights in, and is effective for a five year period, from the date of the agreement, with Rice Drilling D, LLC. In consideration of the execution of the second lease, the School District received a signing bonus in the amount of \$112,288. The lease calls for payments to the School District, in addition to the bonus, royalties in the amount of 20 percent for all oil and other liquid hydrocarbons and by-products produced and saved from the land, and all gas and other hydrocarbons and by-products. As of the date of the financial statements, the value of any potential royalties cannot be determined.

Rice Drilling D, LLC, - On December 10, 2013, the Board of Education entered into a “Paid Up” Oil and Gas Lease. The lease is for 6.95 acres of property owned by the Union Local Board of Education in Smith Township, Belmont County, Ohio, and is effective for a five year period, from the date of the agreement, with Rice Drilling D, LLC. In consideration of the execution of this lease, the School District is received a signing bonus in the amount of \$43,437. The lease calls for payments to the School District, in addition to the bonus, royalties in the amount of 20 percent for all oil and other liquid hydrocarbons and by-products produced and saved from the land, and all gas and other hydrocarbons and by-products. As of the date of the financial statements, the value of any potential royalties cannot be determined.

Rice Drilling D, LLC, - On June 6, 2017, the Board of Education entered into a “Paid Up” Oil and Gas Lease. The lease is for 0.5 acres of property owned by the Union Local Board of Education in Wayne Township, Belmont County, Ohio, and is effective for a five year period, from the date of the agreement, with Rice Drilling D, LLC. In consideration of the execution of this lease, the School District is to receive a signing bonus in the amount of \$3,500. The lease calls for payments to the School District, in addition to the bonus, royalties in the amount of 20 percent for all oil and other liquid hydrocarbons and by-products produced and saved from the land, and all gas and other hydrocarbons and by-products. As of the date of the financial statements, the value of any potential royalties cannot be determined.

The total carrying value of the land leased is \$524,620.

NOTE 21 - SUBSEQUENT EVENTS

A. Labor Negotiations

On August 29, 2017, the Board of Education ratified the Master Agreement with classified staff, represented by the Ohio Association of Public School Employees (OAPSE), for the period July 1, 2016 through June 30, 2017. A successor Master Agreement for the period of July 1, 2017 through June 30, 2020 was also ratified by the Board of Education on that date. The classified staff had been working under an extension of the previous contract which expired on June 30, 2016.

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

| | <u>2017</u> | <u>2016</u> | <u>2015</u> | <u>2014</u> |
|---|-------------|-------------|-------------|-------------|
| School District's Proportion of the Net Pension Liability | 0.06105640% | 0.05781720% | 0.05529900% | 0.05529900% |
| School District's Proportionate Share of the Net Pension Liability | \$4,468,766 | \$3,299,106 | \$2,798,652 | \$3,288,454 |
| School District's Covered Payroll | \$1,917,657 | \$1,744,757 | \$1,617,309 | \$1,495,164 |
| School District's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll | 233.03% | 189.09% | 173.04% | 219.94% |
| Plan Fiduciary Net Position as a Percentage of the Total Pension Liability | 62.98% | 69.16% | 71.70% | 65.52% |

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

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

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

| | <u>2017</u> | <u>2016</u> | <u>2015</u> | <u>2014</u> |
|---|--------------|--------------|--------------|--------------|
| School District's Proportion of the Net Pension Liability | 0.05676709% | 0.05542771% | 0.05739464% | 0.05739464% |
| School District's Proportionate Share of the Net Pension Liability | \$19,001,656 | \$15,318,598 | \$13,960,363 | \$16,629,493 |
| School District's Covered Payroll | \$6,006,886 | \$5,832,629 | \$5,858,631 | \$5,619,839 |
| School District's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll | 316.33% | 262.64% | 238.29% | 295.91% |
| Plan Fiduciary Net Position as a Percentage of the Total Pension Liability | 66.80% | 72.10% | 74.70% | 69.30% |

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

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

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

| | <u>2017</u> | <u>2016</u> | <u>2015</u> | <u>2014</u> |
|---|------------------|------------------|------------------|------------------|
| Contractually Required Contribution | \$268,383 | \$268,472 | \$229,959 | \$224,159 |
| Contributions in Relation to the Contractually Required Contribution | <u>(268,383)</u> | <u>(268,472)</u> | <u>(229,959)</u> | <u>(224,159)</u> |
| Contribution Deficiency (Excess) | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> |
| School District Covered Payroll | \$1,917,021 | \$1,917,657 | \$1,744,757 | \$1,617,309 |
| Contributions as a Percentage of Covered Payroll | 14.00% | 14.00% | 13.18% | 13.86% |

| <u>2013</u> | <u>2012</u> | <u>2011</u> | <u>2010</u> | <u>2009</u> | <u>2008</u> |
|------------------|------------------|------------------|------------------|------------------|------------------|
| \$206,931 | \$199,283 | \$199,634 | \$213,404 | \$152,425 | \$140,099 |
| <u>(206,931)</u> | <u>(199,283)</u> | <u>(199,634)</u> | <u>(213,404)</u> | <u>(152,425)</u> | <u>(140,099)</u> |
| <u>\$0</u> | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> |
| \$1,495,164 | \$1,481,661 | \$1,588,180 | \$1,576,103 | \$1,549,035 | \$1,426,666 |
| 13.84% | 13.45% | 12.57% | 13.54% | 9.84% | 9.82% |

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

| | <u>2017</u> | <u>2016</u> | <u>2015</u> | <u>2014</u> |
|---|------------------|------------------|------------------|------------------|
| Contractually Required Contribution | \$886,663 | \$840,964 | \$816,568 | \$761,622 |
| Contributions in Relation to the Contractually Required Contribution | <u>(886,663)</u> | <u>(840,964)</u> | <u>(816,568)</u> | <u>(761,622)</u> |
| Contribution Deficiency (Excess) | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> |
| School District Covered Payroll | \$6,333,307 | \$6,006,886 | \$5,832,629 | \$5,858,631 |
| Contributions as a Percentage of Covered Payroll | 14.00% | 14.00% | 14.00% | 13.00% |

| <u>2013</u> | <u>2012</u> | <u>2011</u> | <u>2010</u> | <u>2009</u> | <u>2008</u> |
|------------------|------------------|------------------|------------------|------------------|------------------|
| \$730,579 | \$740,592 | \$805,569 | \$812,897 | \$803,120 | \$786,765 |
| <u>(730,579)</u> | <u>(740,592)</u> | <u>(805,569)</u> | <u>(812,897)</u> | <u>(803,120)</u> | <u>(786,765)</u> |
| <u>\$0</u> | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> |
| \$5,619,839 | \$5,696,864 | \$6,196,686 | \$6,253,050 | \$6,177,847 | \$6,052,036 |
| 13.00% | 13.00% | 13.00% | 13.00% | 13.00% | 13.00% |

Union Local School District
Notes to Required Supplementary Information
For the Fiscal Year Ended June 30, 2017

Changes in Assumptions - SERS

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

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

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

**UNION LOCAL SCHOOL DISTRICT
BELMONT COUNTY**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2017**

| FEDERAL GRANTOR Pass Through Grantor Program / Cluster Title | Federal CFDA Number | Pass Through Entity Identifying Number | Total Federal Expenditures |
|---|------------------------------------|---|---------------------------------------|
| U.S. DEPARTMENT OF AGRICULTURE | | | |
| <i>Passed Through Ohio Department of Education</i> | | | |
| Child Nutrition Cluster: | | | |
| Non-Cash Assistance: | | | |
| National School Lunch Program (Food Donation) | 10.555 | 2017 | \$33,286 |
| Cash Assistance: | | | |
| School Breakfast Program | 10.553 | 2017 | 96,885 |
| National School Lunch Program | 10.555 | 2017 | 200,498 |
| Cash Assistance Subtotal | | | <u>297,383</u> |
| Total Child Nutrition Cluster | | | <u>330,669</u> |
| Total U.S. Department of Agriculture | | | <u>330,669</u> |
| U.S. DEPARTMENT OF EDUCATION | | | |
| <i>Passed Through Ohio Department of Education</i> | | | |
| Title I Grants to Local Educational Agencies | 84.010 | 2016 | 5,601 |
| | | 2017 | <u>228,831</u> |
| Total Title I Grants to Local Educational Agencies | | | 234,432 |
| Special Education Cluster: | | | |
| Special Education - Grants to States | | | |
| | 84.027 | 2016 | 34,526 |
| | | 2017 | <u>344,008</u> |
| Total Special Education - Grants to States | | | 378,534 |
| Special Education - Preschool Grants | | | |
| | 84.173 | 2017 | <u>2,710</u> |
| Total Special Education Cluster | | | 381,244 |
| Twenty-First Century Community Learning Centers - Success Program | 84.287 | 2017 | 98,867 |
| Twenty-First Century Community Learning Centers - Jet Adventure | | 2017 | <u>184,399</u> |
| Total Twenty-First Century Community Learning Centers | | | 283,266 |
| Improving Teacher Quality State Grants | | | |
| | 84.367 | 2016 | 11,379 |
| | | 2017 | <u>74,176</u> |
| Total Improving Teacher Quality State Grants | | | 85,555 |
| Total U.S. Department of Education | | | <u>984,497</u> |
| Total Expenditures of Federal Awards | | | <u>\$1,315,166</u> |

The accompanying notes are an integral part of this schedule.

**UNION LOCAL SCHOOL DISTRICT
BELMONT COUNTY**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
2 CFR 200.510(b)(6)
FOR THE YEAR ENDED JUNE 30, 2017**

NOTE A – BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal award activity of Union Local School District's (the School District's) under programs of the federal government for the year ended June 30, 2017. The information on this Schedule is prepared in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the School District, it is not intended to and does not present the financial position, changes in net position, or cash flows of the School District.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

NOTE C - CHILD NUTRITION CLUSTER

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

NOTE D – FOOD DONATION PROGRAM

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

NOTE E - TRANSFERS BETWEEN PROGRAM YEARS

Federal regulations require schools to obligate certain federal awards by June 30. However, with ODE's consent, schools can transfer unobligated amounts to the subsequent fiscal year's program. The District transferred the following amounts from 2016 to 2017 programs:

| <u>Program Title</u> | <u>CFDA Number</u> | <u>Amt. Transferred</u> |
|------------------------------------|------------------------|-----------------------------|
| Special Education_Preschool Grants | 84.173 | \$ 611.00 |
| | | |
| | | |



Dave Yost • Auditor of State

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

Union Local School District
Belmont County
66779 Belmont-Morristown Road
Belmont, Ohio 43718

To the Board of Education:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the Union Local School District, Belmont County, Ohio (the School District), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements and have issued our report thereon dated February 15, 2018.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "D" and "Y".

Dave Yost
Auditor of State
Columbus, Ohio

February 15, 2018



Dave Yost • Auditor of State

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

Union Local School District
Belmont County
66779 Belmont-Morristown Road
Belmont, Ohio 43718

To the Board of Education:

Report on Compliance for the Major Federal Program

We have audited the Union Local School District's, Belmont County, Ohio (the School District), compliance with the applicable requirements described in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could directly and materially affect the Union Local School District's major federal program for the year ended June 30, 2017. The *Summary of Auditor's Results* in the accompanying Schedule of Findings identifies the School District's major federal program.

Management's Responsibility

The School District's management is responsible for complying with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to opine on the School District's compliance for the School District's major federal program based on our audit of the applicable compliance requirements referred to above. Our compliance audit followed auditing standards generally accepted in the United States of America; the standards for financial audits included in the Comptroller General of the United States' *Government Auditing Standards*; and the audit requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). These standards and the Uniform Guidance require us to plan and perform the audit to reasonably assure whether noncompliance with the applicable compliance requirements referred to above that could directly and materially affect a major federal program occurred. An audit includes examining, on a test basis, evidence about the School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on the Major Federal Program

In our opinion, the Union Local School District complied, in all material respects with the compliance requirements referred to above that could directly and materially affect its major federal program for the year ended June 30, 2017.

Report on Internal Control Over Compliance

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

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

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

This report only describes the scope of our internal control over compliance tests and the results of this testing based on Uniform Guidance requirements. Accordingly, this report is not suitable for any other purpose.



Dave Yost
Auditor of State
Columbus, Ohio

February 15, 2018

**UNION LOCAL SCHOOL DISTRICT
BELMONT COUNTY**

**SCHEDULE OF FINDINGS
2 CFR § 200.515
JUNE 30, 2017**

1. SUMMARY OF AUDITOR'S RESULTS

| | | |
|---------------------|--|--|
| (d)(1)(i) | Type of Financial Statement Opinion | Unmodified |
| (d)(1)(ii) | Were there any material weaknesses in internal control reported at the financial statement level (GAGAS)? | No |
| (d)(1)(ii) | Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)? | No |
| (d)(1)(iii) | Was there any reported material noncompliance at the financial statement level (GAGAS)? | No |
| (d)(1)(iv) | Were there any material weaknesses in internal control reported for major federal programs? | No |
| (d)(1)(iv) | Were there any significant deficiencies in internal control reported for major federal programs? | No |
| (d)(1)(v) | Type of Major Programs' Compliance Opinion | Unmodified |
| (d)(1)(vi) | Are there any reportable findings under 2 CFR § 200.516(a)? | No |
| (d)(1)(vii) | Major Program (list): <ul style="list-style-type: none"> • Special Education Cluster – CFDA #84.027 and #84.173 | |
| (d)(1)(viii) | Dollar Threshold: Type A/B Programs | Type A: > \$ 750,000 Type B: all others |
| (d)(1)(ix) | Low Risk Auditee under 2 CFR §200.520? | Yes |

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

None.

3. FINDINGS FOR FEDERAL AWARDS

None.

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Dave Yost • Auditor of State

UNION LOCAL SCHOOL DISTRICT

BELMONT 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 6, 2018