

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

Basic Financial Statements – Cash Basis  
June 30, 2018 and 2017  
(with Independent Auditors' Report)



# OHIO AUDITOR OF STATE KEITH FABER



Board of Education  
Berne Union Local School District  
PO Box 187  
506 North Main Street  
Sugar Grove, OH 43155

We have reviewed the *Independent Auditor's Report* of the Berne Union Local School District, Fairfield County, prepared by Clark, Schaefer, Hackett & Co., for the audit period July 1, 2016 through June 30, 2018. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

A handwritten signature in cursive script that reads "Keith Faber".

Keith Faber  
Auditor of State  
Columbus, Ohio

January 30, 2019

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## INDEPENDENT AUDITORS' REPORT

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

### Report on the Financial Statements

We have audited the accompanying cash-basis financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the Berne Union Local School District (the District) as of and for the years ended June 30, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditors' Responsibility

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

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

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

### Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the District, as of June 30, 2018 and 2017, and the respective changes in cash financial position thereof, and the respective budgetary fund comparison for the General Fund, for the years then ended in accordance with the accounting basis described in Note 2.

**Accounting Basis**

Ohio Administrative Code Section 117-2-03(B) requires the District to prepare its annual financial reports in accordance with accounting principles generally accepted in the United States of America. We draw attention to Note 2 of the financial statements, which describes the basis applied to these statements. The financial statements are prepared on the cash basis of accounting, which is a basis other than generally accepted accounting principles. Our opinions are not modified with respect to this matter.

**Other Matters***Supplemental and Other Information*

Our audit was conducted for the purpose of forming our opinions on the financial statements that collectively comprise the District's basic financial statements. Management's discussion and analysis sections, the schedules of the District's proportionate share of the net pension and other postemployment benefits (OPEB) liabilities, the schedules of the District's contributions for pension and OPEB, and the notes to the supplementary information (as disclosed in the table of contents) are presented for purposes of additional analysis and are not a required part of the basic financial statements

Management's discussion and analysis sections, the schedules of the District's proportionate share of the net pension and other postemployment benefits (OPEB) liabilities, the schedules of the District's contributions for pension and OPEB, and the notes to the supplementary information have not been subjected to the audit procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 14, 2018, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

*Clark, Schaefer, Hackett & Co.*

Springfield, Ohio  
December 14, 2018



**BERNE UNION LOCAL SCHOOL DISTRICT**

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

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

**Financial Highlights**

- ▶ Total net cash position of the District at June 30, 2018 is \$3,905,429. This balance was comprised of a \$318,760 balance in net position amounts restricted for specific purposes and a balance of \$3,586,669 in unrestricted net position.
- ▶ In total, net cash position of governmental activities increased by \$833,136, which represents a 27.16 percent decrease from 2017. Net cash position of the business-type activities decreased \$10,576, which represents a 69.72 percent decrease from 2017.
- ▶ General receipts accounted for \$9,652,795 or 79.86 percent of all receipts of governmental activities. Program specific receipts in the form of charges for services and sales, operating grants and contributions accounted for \$2,434,965 or 20.14 percent of total receipts of \$12,087,760 for the governmental activities.
- ▶ The District had \$11,254,624 in disbursements related to governmental activities; only \$2,434,965 of these disbursements were offset by program specific charges for services and sales, operating grants or contributions. General receipts (primarily taxes, grants, and entitlements) of \$9,652,795 were used to provide for the remainder of these programs.
- ▶ The District had \$43,520 in disbursements related to business-type activities; \$32,944 of these disbursements were offset by program specific charges for services and sales, and net cash position from the prior year.
- ▶ The District recognizes two major governmental funds: the General Fund and the Permanent Improvement Fund. In terms of dollars received and spent, the General Fund is significantly larger than all the other funds of the District combined. The General Fund had \$11,276,959 in receipts and \$10,572,974 in disbursements in fiscal year 2018.

**Using this Annual Report**

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

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

**BERNE UNION LOCAL SCHOOL DISTRICT**

*Management's Discussion and Analysis*

*For the Fiscal Year Ended June 30, 2018*

*(Unaudited)*

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**Reporting the District as a Whole**

**Government-Wide Financial Statements – Cash Basis**

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

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

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

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

**Governmental Activities**

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

**Business-Type Activities**

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

**BERNE UNION LOCAL SCHOOL DISTRICT**

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

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

**Fund Financial Statements**

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

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

**Governmental Funds**

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

**Proprietary Funds**

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

**Fiduciary Funds**

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

**BERNE UNION LOCAL SCHOOL DISTRICT**

*Management's Discussion and Analysis*

*For the Fiscal Year Ended June 30, 2018*

*(Unaudited)*

**Notes to the Basic Financial Statements**

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

**Government-Wide Financial Analysis**

Recall that the statement of net cash position provides the perspective of the District as a whole, showing cash and net cash position. Table 1 provides a summary of the District's net cash position for 2018 compared to fiscal year 2017:

Table 1  
**Net Cash Position**

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
<b><u>Cash Assets:</u></b>						
Cash and Cash Equivalents	<u>\$3,985,769</u>	<u>\$3,350,951</u>	<u>\$4,593</u>	<u>\$15,169</u>	<u>\$3,990,362</u>	<u>\$3,366,120</u>
<i>Total Cash Assets</i>	3,985,769	3,350,951	4,593	15,169	3,990,362	3,366,120
<b><u>Cash Liabilities:</u></b>						
Deficit in Pooled Cash and Cash Equivalents with Fiscal Agent	<u>84,933</u>	<u>283,251</u>	<u>0</u>	<u>0</u>	<u>84,933</u>	<u>283,251</u>
<i>Total Cash Liabilities</i>	84,933	283,251	0	0	84,933	283,251
<b><u>Net Cash Position:</u></b>						
Restricted	<u>318,760</u>	<u>372,077</u>	<u>0</u>	<u>0</u>	<u>318,760</u>	<u>372,077</u>
Unrestricted	<u>3,582,076</u>	<u>2,695,623</u>	<u>4,593</u>	<u>15,169</u>	<u>3,586,669</u>	<u>2,710,792</u>
<i>Total Net Cash Position</i>	<u>\$3,900,836</u>	<u>\$3,067,700</u>	<u>\$4,593</u>	<u>\$15,169</u>	<u>\$3,905,429</u>	<u>\$3,082,869</u>

Total Cash and Cash Equivalents increased \$624,242 from fiscal year 2017. There was a significant increase in receipts from the prior year, a significant decrease in disbursements from the prior year overall, receipts outpaced disbursements during the year.

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

The remaining balance of \$318,760 is restricted. The restricted net cash position is subject to external restrictions on how they may be used.

**BERNE UNION LOCAL SCHOOL DISTRICT**

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

Table 2 shows the changes in net cash position for fiscal year 2018 and provides a comparison to fiscal year 2017.

Table 2  
**Changes in Net Cash Position**

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
<b><u>Receipts:</u></b>						
<i>Program Receipts:</i>						
Charges for Services and Sales	\$944,916	\$980,523	\$32,944	\$56,621	\$977,860	\$1,037,144
Operating Grants and Contributions	1,490,049	1,586,890	0	0	1,490,049	1,586,890
<i>General Receipts:</i>						
Property Taxes	3,572,670	3,321,548	0	0	3,572,670	3,321,548
Income Taxes	2,054,545	2,005,896	0	0	2,054,545	2,005,896
Unrestricted Grants and Entitlements	3,904,242	3,615,927	0	0	3,904,242	3,615,927
Investment Earnings	17,323	9,497	0	0	17,323	9,497
Payments in Lieu of Taxes	23,086	10,070	0	0	23,086	10,070
Miscellaneous	80,929	119,802	0	0	80,929	119,802
<i>Total Receipts</i>	<u>12,087,760</u>	<u>11,650,153</u>	<u>32,944</u>	<u>56,621</u>	<u>12,120,704</u>	<u>11,706,774</u>

(Continued)

**BERNE UNION LOCAL SCHOOL DISTRICT***Management's Discussion and Analysis**For the Fiscal Year Ended June 30, 2018**(Unaudited)*

Table 2  
**Changes in Net Cash Position**

	Governmental Activities		Business-Type Activities		Total	
	2018	2017	2018	2017	2018	2017
<b><i>Disbursements</i></b>						
<i>Program Disbursements:</i>						
<i>Instruction:</i>						
Regular	4,498,122	4,634,270	0	0	4,498,122	4,634,270
Special	2,045,228	1,970,937	0	0	2,045,228	1,970,937
Vocational	0	37,359	0	0	0	37,359
<i>Support Services:</i>						
Pupils	414,315	370,876	0	0	414,315	370,876
Instructional Staff	138,334	157,125	0	0	138,334	157,125
Board of Education	63,230	50,922	0	0	63,230	50,922
Administration	1,036,329	1,009,778	0	0	1,036,329	1,009,778
Fiscal	429,114	484,488	0	0	429,114	484,488
Business	9,517	7,909	0	0	9,517	7,909
Operation and Maintenance of Plant	922,105	1,820,916	0	0	922,105	1,820,916
Pupil Transportation	806,237	913,967	0	0	806,237	913,967
Central	5,419	5,330	0	0	5,419	5,330
<i>Operation of Non-Instructional Services:</i>						
Food Services	319,504	338,827	0	0	319,504	338,827
Extracurricular Activities	231,953	259,193	0	0	231,953	259,193
Capital Outlay	22,609	0	0	0	22,609	0
<i>Debt Service:</i>						
Principal	240,910	302,535	0	0	240,910	302,535
Interest and Fiscal Charges	71,698	82,475	0	0	71,698	82,475
Preschool	0	0	43,520	58,681	43,520	58,681
Total Disbursements	11,254,624	12,446,907	43,520	58,681	11,298,144	12,505,588
Changes In Net Cash Position	833,136	(796,754)	(10,576)	(2,060)	822,560	(798,814)
Net Cash Position -Beginning of Year	3,067,700	3,864,454	15,169	17,229	3,082,869	3,881,683
Net Cash Position -End of Year	\$3,900,836	\$3,067,700	\$4,593	\$15,169	\$3,905,429	\$3,082,869

**BERNE UNION LOCAL SCHOOL DISTRICT**

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

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The most significant governmental activities program disbursements for the District are Regular Instruction, Special Instruction, Administration, Operation and Maintenance of Plant, and Pupil Transportation. These programs account for 82.70 percent of the total governmental activities. Regular Instruction, which accounts for 39.97 percent of the total, represents costs associated with providing general educational services. Special Instruction, which represents 18.17 percent of the total, represents costs associated with providing educational services for handicapped, disadvantaged and other special needs students. Administration, which represents 9.21 percent of the total, represents costs associated with the overall administrative responsibility for each building and the District as a whole. Operation and Maintenance of Plant, which represents 8.19 percent of the total, represents costs associated with operating and maintaining the District's facilities. Pupil Transportation, which represents 7.16 percent of the total cost, represents costs associated with transporting students to and from school, as well as to activities.

As noted previously, the net cash position for the governmental activities increased \$833,136 or 27.16 percent. This is an increase from last year when net cash position decreased \$796,754 or 20.62 percent. For the governmental activities, total receipts increased \$437,607 or 3.76 percent from last year and disbursements decreased \$1,192,283 or 9.58 percent from last year.

The District's governmental activities had a decrease in program receipts of \$132,448, as well as an increase in general receipts of \$570,055. The increase in general receipts is primarily due to an increase in unrestricted grants and entitlements while the decrease in programs receipts is mostly due to a decrease in operating grants.

The total disbursements for governmental activities decreased primarily from an decrease of \$136,148 in regular instruction and \$898,811 in operation and maintenance of plant disbursements.

The majority of the funding for the most significant programs indicated above is from property taxes and unrestricted grants and entitlements. Property taxes and unrestricted grants and entitlements account for 61.86 percent of total receipts for governmental activities.

The net position for the business-type activities decreased \$10,576. The business-type activities had \$32,944 of program receipts and \$43,520 of program disbursements. For the business-type activities, total receipts decreased \$23,677 or 41.82 percent from last year and disbursements decreased \$15,161 or 25.84 percent from last year.

**Governmental Activities**

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

The District is heavily dependent on property taxes and intergovernmental receipts and, like most Ohio schools, is hampered by a lack of revenue growth. Property taxes made up 29.56 percent and intergovernmental receipts (unrestricted and operating grants) made up 44.63 percent of the total receipts for the governmental activities in fiscal year 2018.

**BERNE UNION LOCAL SCHOOL DISTRICT**

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

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

The District's intergovernmental receipts consist of school foundation basic allowance, homestead and rollback property tax allocation, and federal and state grants. During fiscal year 2018, the District received \$4,543,437 through the State's foundation program, which represents 37.59 percent of the total receipts for the governmental activities. The District relies heavily on this state funding to operate at the current levels of service.

Instruction accounts for 58.14 percent of governmental activities program disbursements. Support services disbursements make up 33.98 percent of governmental activities program disbursements. The statement of activities shows the cost of program services and charges for services and grants offsetting those services.

**Business-Type Activities**

Business-type activities include the Preschool activities. This program had program receipts of \$32,944 and disbursements of \$43,520 for fiscal year 2018. All of the program receipts were from tuition and fees.

Table 3 shows, the total cost of services and the net cost of services for fiscal year 2018 and comparison to fiscal year 2017. That is, it identifies the cost of these services supported by tax revenue and unrestricted State entitlements.

Table 3  
**Net Cost of Activities**

	<u>Total Cost of Services</u>		<u>Net Cost of Services</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
<b><u>Program Disbursements:</u></b>				
<i>Governmental Activities:</i>				
Instruction	\$6,543,350	\$6,642,566	\$4,955,402	\$4,951,758
Support Services	3,824,600	4,821,311	3,362,756	4,353,697
Operation of Non-Instructional Services	319,504	338,827	3,581	25,310
Extracurricular Activities	231,953	259,193	162,703	163,719
Capital Outlay	22,609	0	22,609	0
Principal	240,910	302,535	240,910	302,535
Interest and Fiscal Charges	71,698	82,475	71,698	82,475
<i>Business-Type Activities:</i>				
Preschool	<u>43,520</u>	<u>58,681</u>	<u>10,576</u>	<u>2,060</u>
Total Disbursements	<u>\$11,298,144</u>	<u>\$12,505,588</u>	<u>\$8,830,235</u>	<u>\$9,881,554</u>



**BERNE UNION LOCAL SCHOOL DISTRICT**

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

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**The District's Funds**

The District's governmental funds are accounted for using the cash basis of accounting. (See Note 2 for discussion of significant accounting policies). All governmental funds had total receipts of \$12,087,760 and disbursements of \$11,436,252.

The total fund balance of governmental funds increased by \$651,508. The increase in fund balance for the year was most significant in the General Fund where there was an increase of \$703,985, reflecting receipts that exceeded disbursements, which is the result of an increase in receipts and a decrease in disbursements.

**Budget Highlights - General Fund**

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

During the course of fiscal year 2018, the District did not amend its General Fund budget from the original budget. The District uses a modified site-based budget technique that is designed to control site budgets while providing building administrators and supervisor's flexibility for site management.

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

For the General Fund, the final budget basis receipts were \$11,071,482 representing no change from the original budget estimates. In addition, the final budget basis disbursements were \$11,550,029 and reflect no change from the original budget estimates.

**Debt Administration**

At June 30, 2018, the District had \$1,882,237 in general obligation debt outstanding with \$129,520 due within one year. Table 4 summarizes the general obligation debt outstanding for fiscal year 2018 compared to fiscal year 2017.

Table 4  
**Outstanding Debt, Governmental Activities at Year End**

<u>Purpose</u>	<u>2018</u>	<u>2017</u>
Energy Conservation Loan	\$0	\$120,612
Energy Conservation Notes	363,485	387,355
Lease Purchase Agreement	<u>1,518,752</u>	<u>1,615,180</u>
Total General Obligation Debt	<u>\$1,882,237</u>	<u>\$2,123,147</u>

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

**BERNE UNION LOCAL SCHOOL DISTRICT**

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

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**Current Issues**

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

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

The District voters approved a 10 year earned income tax replacement levy of 2 percent in May 2014, for tax years 2015-2024. In fiscal year 2018, this generated \$2,054,545 in receipts for general operations which is over \$400,000 more than original projections in 2014 by the Ohio Department of taxation.

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

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

**Contacting the District's Financial Management**

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

**BERNE UNION LOCAL SCHOOL DISTRICT**

*Statement of Net Position - Cash Basis*

*June 30, 2018*

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	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
<b><u>Cash Assets:</u></b>			
Equity in Pooled Cash and Cash Equivalents	<u>\$3,985,769</u>	<u>\$4,593</u>	<u>\$3,990,362</u>
<i>Total Assets</i>	<u>3,985,769</u>	<u>4,593</u>	<u>3,990,362</u>
<b><u>Cash Liabilities:</u></b>			
Deficit in Pooled Cash and Cash Equivalents with Fiscal Agent	<u>84,933</u>	<u>0</u>	<u>84,933</u>
<i>Total Liabilities</i>	<u>84,933</u>	<u>0</u>	<u>84,933</u>
<b><u>Net Cash Position:</u></b>			
<i>Restricted for:</i>			
Capital Improvements	134,887	0	134,887
Set Asides	5,364	0	5,364
Food Service Operations	129,470	0	129,470
Facilities Maintenance	32,835	0	32,835
Other Purposes	16,204	0	16,204
Unrestricted	<u>3,582,076</u>	<u>4,593</u>	<u>3,586,669</u>
<i>Total Net Cash Position</i>	<u><u>\$3,900,836</u></u>	<u><u>\$4,593</u></u>	<u><u>\$3,905,429</u></u>

See accompanying notes to the basic financial statements.

**BERNE UNION LOCAL SCHOOL DISTRICT**

Statement of Activities - Cash Basis  
For the Fiscal Year Ended June 30, 2018

	Program Cash Receipts			Net (Cash Disbursements) Cash Receipts and Changes in Net Cash Position		
	Cash Disbursements	Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities	Business-Type Activities	Total
<b><u>Governmental Activities:</u></b>						
<i>Instruction:</i>						
Regular	\$4,498,122	\$760,325	\$67,389	(\$3,670,408)	\$0	(\$3,670,408)
Special	2,045,228	0	754,297	(1,290,931)	0	(1,290,931)
Vocational	0	0	5,937	5,937	0	5,937
<i>Support Services:</i>						
Pupils	414,315	0	0	(414,315)	0	(414,315)
Instructional Staff	138,334	0	13,058	(125,276)	0	(125,276)
Board of Education	63,230	0	0	(63,230)	0	(63,230)
Administration	1,036,329	2,073	0	(1,034,256)	0	(1,034,256)
Fiscal	429,114	0	0	(429,114)	0	(429,114)
Business	9,517	0	0	(9,517)	0	(9,517)
Operation and Maintenance of Plant	922,105	0	2,294	(919,811)	0	(919,811)
Pupil Transportation	806,237	0	440,819	(365,418)	0	(365,418)
Central	5,419	0	3,600	(1,819)	0	(1,819)
<i>Operation of Non-Instructional Services:</i>						
Food Service	319,504	113,341	202,582	(3,581)	0	(3,581)
Extracurricular Activities	231,953	69,177	73	(162,703)	0	(162,703)
Capital Outlay	22,609	0	0	(22,609)	0	(22,609)
<i>Debt Service:</i>						
Principal	240,910	0	0	(240,910)	0	(240,910)
Interest and Fiscal Charges	71,698	0	0	(71,698)	0	(71,698)
<i>Total Governmental Activities</i>	<u>11,254,624</u>	<u>944,916</u>	<u>1,490,049</u>	<u>(8,819,659)</u>	<u>0</u>	<u>(8,819,659)</u>
<b><u>Business-Type Activities:</u></b>						
Preschool	43,520	32,944	0	0	(10,576)	(10,576)
<i>Total Business-Type Activities</i>	<u>43,520</u>	<u>32,944</u>	<u>0</u>	<u>0</u>	<u>(10,576)</u>	<u>(10,576)</u>
<i>Totals</i>	<u>\$11,298,144</u>	<u>\$977,860</u>	<u>\$1,490,049</u>	<u>(8,819,659)</u>	<u>(10,576)</u>	<u>(8,830,235)</u>
<b><u>General Cash Receipts:</u></b>						
<i>Property Taxes Levied for:</i>						
General Purposes				3,551,312	0	3,551,312
Capital Outlay				21,358	0	21,358
Income Taxes Levied for General Purposes				2,054,545	0	2,054,545
Grants and Entitlements not Restricted to Specific Programs				3,904,242	0	3,904,242
Payments in Lieu of Taxes				23,086	0	23,086
Investment Earnings				17,323	0	17,323
Miscellaneous				80,929	0	80,929
<i>Total General Cash Receipts</i>				<u>9,652,795</u>	<u>0</u>	<u>9,652,795</u>
Changes in Net Cash Position				833,136	(10,576)	822,560
<i>Net Cash Position at Beginning of Year</i>				<u>3,067,700</u>	<u>15,169</u>	<u>3,082,869</u>
<i>Net Cash Position at End of Year</i>				<u>\$3,900,836</u>	<u>\$4,593</u>	<u>\$3,905,429</u>

See accompanying notes to the basic financial statements

**BERNE UNION LOCAL SCHOOL DISTRICT**  
*Statement of Cash Basis Assets and Fund Cash Balances*  
*Governmental Funds*  
*June 30, 2018*

	General	Permanent Improvement	Other Governmental Funds	Total Governmental Funds
<b><u>Cash Assets:</u></b>				
Equity in Pooled Cash and Cash Equivalents	\$3,590,128	\$134,887	\$178,509	\$3,903,524
<b><u>Restricted Cash Assets:</u></b>				
Equity in Pooled Cash and Cash Equivalents	5,364	0	0	5,364
<i>Total Cash Assets</i>	<u>\$3,595,492</u>	<u>\$134,887</u>	<u>\$178,509</u>	<u>\$3,908,888</u>
<b><u>Fund Cash Balances:</u></b>				
Nonspendable	\$1,912	\$0	\$0	\$1,912
Restricted	5,364	134,887	178,509	318,760
Assigned	3,550,440	0	0	3,550,440
Unassigned	37,776	0	0	37,776
<i>Total Fund Cash Balances</i>	<u>\$3,595,492</u>	<u>\$134,887</u>	<u>\$178,509</u>	<u>\$3,908,888</u>

See accompanying notes to the basic financial statements.

**BERNE UNION LOCAL SCHOOL DISTRICT**  
*Reconciliation of Total Governmental Fund Cash Balances to  
Net Cash Position of Governmental Activities  
June 30, 2018*

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**Total Governmental Fund Cash Balances** \$3,908,888

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

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

(8,052)

*Net Cash Position of Governmental Activities*

\$3,900,836

See accompanying notes to the basic financial statements.

**BERNE UNION LOCAL SCHOOL DISTRICT**  
*Statement of Cash Receipts, Cash Disbursements and Changes in Fund Cash Balances*  
*Governmental Funds*  
*For the Fiscal Year Ended June 30, 2018*

	General	Permanent Improvement	Other Governmental Funds	Total Governmental Funds
<b><u>Cash Receipts:</u></b>				
Property Taxes	\$3,551,312	\$0	\$21,358	\$3,572,670
Income Tax	2,054,545	0	0	2,054,545
Intergovernmental	4,781,533	0	612,456	5,393,989
Interest	17,323	0	0	17,323
Tuition and Fees	760,325	0	0	760,325
Extracurricular Activities	6,355	0	62,822	69,177
Payment in Lieu of Taxes	22,889	0	197	23,086
Gifts and Donations	0	0	302	302
Customer Sales and Services	2,073	0	113,341	115,414
Miscellaneous	80,604	0	325	80,929
<i>Total Cash Receipts</i>	<u>11,276,959</u>	<u>0</u>	<u>810,801</u>	<u>12,087,760</u>
<b><u>Cash Disbursements:</u></b>				
<i>Current:</i>				
<i>Instruction:</i>				
Regular	4,612,361	0	67,389	4,679,750
Special	1,722,656	0	322,572	2,045,228
<i>Support Services:</i>				
Pupils	414,315	0	0	414,315
Instructional Staff	126,334	0	12,000	138,334
Board of Education	63,230	0	0	63,230
Administration	1,036,329	0	0	1,036,329
Fiscal	426,823	1,925	366	429,114
Business	9,517	0	0	9,517
Operation and Maintenance of Plant	841,793	44,055	36,257	922,105
Pupil Transportation	806,237	0	0	806,237
Central	1,819	0	3,600	5,419
<i>Operation of Non-Instructional Services:</i>				
Food Service Operations	0	0	319,504	319,504
Extracurricular Activities	176,343	0	55,610	231,953
Capital Outlay	22,609	0	0	22,609
<i>Debt Service:</i>				
Principal Retirement	240,910	0	0	240,910
Interest and Fiscal Charges	71,698	0	0	71,698
<i>Total Cash Disbursements</i>	<u>10,572,974</u>	<u>45,980</u>	<u>817,298</u>	<u>11,436,252</u>
<i>Net Changes in Fund Cash Balances</i>	703,985	(45,980)	(6,497)	651,508
<i>Fund Cash Balances at Beginning of Year</i>	<u>2,891,507</u>	<u>180,867</u>	<u>185,006</u>	<u>3,257,380</u>
<i>Fund Cash Balances at End of Year</i>	<u>\$3,595,492</u>	<u>\$134,887</u>	<u>\$178,509</u>	<u>\$3,908,888</u>

See accompanying notes to the basic financial statements.

**BERNE UNION LOCAL SCHOOL DISTRICT**  
*Reconciliation of the Statement of Cash Receipts, Cash Disbursements and Changes  
in Fund Cash Balances of Governmental Funds to the Statement of Activities  
For the Fiscal Year Ended June 30, 2018*

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**Net Change in Fund Cash Balances - Total Governmental Funds** \$651,508

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

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

181,628

*Change in Net Cash Position of Governmental Activities*

\$833,136

See accompanying notes to the basic financial statements.



**BERNE UNION LOCAL SCHOOL DISTRICT**  
*Statement of Receipts, Disbursements and Changes*  
*in Cash Basis Fund Balance - Budget and Actual (Budget Basis)*  
*General Fund*  
*For the Fiscal Year Ended June 30, 2018*

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
<b><u>Receipts:</u></b>				
Property Taxes	\$3,551,312	\$3,551,312	\$3,551,312	\$0
Income Tax	2,054,545	2,054,545	2,054,545	0
Intergovernmental	4,633,129	4,633,129	4,781,533	148,404
Interest	13,500	13,500	17,323	3,823
Tuition and Fees	740,742	740,742	751,973	11,231
Extracurricular Activities	6,305	6,305	6,355	50
Payments in Lieu of Taxes	22,889	22,889	22,889	0
Miscellaneous	49,060	49,060	49,326	266
<i>Total Receipts</i>	<u>11,071,482</u>	<u>11,071,482</u>	<u>11,235,256</u>	<u>163,774</u>
<b><u>Disbursements:</u></b>				
<i>Current:</i>				
<i>Instruction:</i>				
Regular	5,001,368	5,001,368	4,753,789	247,579
Special	1,729,727	1,729,727	1,817,758	(88,031)
Vocational	39,227	39,227	0	39,227
<i>Support Services:</i>				
Pupils	391,617	391,617	415,996	(24,379)
Instructional Staff	158,208	158,208	126,374	31,834
Board of Education	53,539	53,539	63,566	(10,027)
Administration	1,000,406	1,000,406	1,014,181	(13,775)
Fiscal	511,878	511,878	456,125	55,753
Business	12,659	12,659	11,299	1,360
Operation and Maintenance of Plant	1,100,575	1,100,575	1,013,657	86,918
Pupil Transportation	1,031,311	1,031,311	869,968	161,343
Central	1,817	1,817	1,819	(2)
Extracurricular Activities	182,115	182,115	176,965	5,150
Capital Outlay	22,609	22,609	22,609	0
<i>Debt Service:</i>				
Principal Retirement	241,252	241,252	240,910	342
Interest and Fiscal Charges	71,712	71,712	71,698	14
<i>Total Disbursements</i>	<u>11,550,020</u>	<u>11,550,020</u>	<u>11,056,714</u>	<u>493,306</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	(478,538)	(478,538)	178,542	657,080
<b><u>Other Financing (Uses):</u></b>				
Transfers Out	(2,407,582)	(2,407,582)	0	2,407,582
<i>Total Other Financing (Uses)</i>	<u>(2,407,582)</u>	<u>(2,407,582)</u>	<u>0</u>	<u>2,407,582</u>
<i>Net Change in Fund Balances</i>	(2,886,120)	(2,886,120)	178,542	3,064,662
<i>Fund Balance at Beginning of Year</i>	2,372,243	2,372,243	2,372,243	0
<i>Prior Year Encumbrances Appropriated</i>	513,877	513,877	513,877	0
<i>Fund Balance at End of Year</i>	<u>\$0</u>	<u>\$0</u>	<u>\$3,064,662</u>	<u>\$3,064,662</u>

See accompanying notes to the basic financial statements

**BERNE UNION LOCAL SCHOOL DISTRICT**

*Statement of Fund Net Position - Cash Basis*

*Proprietary Funds*

*June 30, 2018*

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	<u>Business-Type Activities</u>	<u>Governmental Activities</u>
	<u>Other Enterprise</u>	<u>Internal Service</u>
<b><u>Cash Assets:</u></b>		
<i>Current Cash Assets:</i>		
Equity in Pooled Cash and Cash Equivalents	\$4,593	\$76,881
<i>Total Cash Assets</i>	<u>4,593</u>	<u>76,881</u>
<b><u>Cash Liabilities:</u></b>		
Deficit in Pooled Cash and Cash Equivalents with Fiscal Agent	0	84,933
<i>Total Cash Liabilities</i>	<u>0</u>	<u>84,933</u>
<b><u>Net Cash Position:</u></b>		
Unrestricted	4,593	(8,052)
<i>Total Net Cash Position</i>	<u>\$4,593</u>	<u>(\$8,052)</u>

See accompanying notes to the basic financial statements.

**BERNE UNION LOCAL SCHOOL DISTRICT**  
*Statement of Cash Receipts, Cash  
Disbursements and Changes in Fund Net Position - Cash Basis  
Proprietary Funds  
For the Fiscal Year Ended June 30, 2018*

	Business-Type Activities	Governmental Activities
	Other Enterprise	Internal Service
<b><u>Operating Cash Receipts:</u></b>		
Tuition	\$32,944	\$0
Charges for Services	0	1,672,410
<i>Total Operating Cash Receipts</i>	32,944	1,672,410
<b><u>Operating Cash Disbursements:</u></b>		
Salaries	24,375	0
Fringe Benefits	6,825	0
Purchased Services	1,479	273,331
Materials and Supplies	10,841	0
Claims	0	1,217,451
<i>Total Operating Cash Disbursements</i>	43,520	1,490,782
<i>Operating Income(Loss)</i>	(10,576)	181,628
<i>Net Cash Position at Beginning of Year</i>	15,169	(189,680)
<i>Net Cash Position at End of Year</i>	<u>\$4,593</u>	<u>(\$8,052)</u>

See accompanying notes to the basic financial statements.

**BERNE UNION LOCAL SCHOOL DISTRICT**  
*Statement of Fiduciary Net Position - Cash Basis*  
*Fiduciary Funds*  
*June 30, 2018*

	Private Purpose Trust	Agency
<b><u>Cash Assets:</u></b>		
Equity in Pooled Cash and Cash Equivalents	\$5,768	\$26,448
<b><u>Net Cash Position:</u></b>		
Held in Trust for Scholarships	5,768	0
Unrestricted	0	26,448
<i>Total Net Cash Position</i>	<i>\$5,768</i>	<i>\$26,448</i>

See accompanying notes to the basic financial statements.

**BERNE UNION LOCAL SCHOOL DISTRICT**  
*Statement of Changes in Fiduciary Net Position - Cash Basis*  
*Fiduciary Fund*  
*For the Fiscal Year Ended June 30, 2018*

	Private Purpose Trust
<i><b>Additions</b></i>	
Miscellaneous	\$1,600
<i><b>Deductions</b></i>	
Payments in Accordance with Trust Agreements	1,600
<i>Change in Net Cash Position</i>	0
<i>Net Cash Position at Beginning of Year</i>	5,768
<i>Net Cash Position at End of Year</i>	\$5,768

See accompanying notes to the basic financial statements.

**BERNE UNION LOCAL SCHOOL DISTRICT**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2018*

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

**Description of the School District**

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

The District was established through the consolidation of existing land areas and school districts. It is staffed by 41 non-certificated employees, 62 certificated full-time teaching personnel and 4 administrative employees who provide services to 944 students and other community members.

**Reporting Entity**

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

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

The District is associated with two jointly governed organizations: the Metropolitan Educational Technology Association (META) Solutions and the South Central Ohio Insurance Consortium (SCOIC). The District is also associated with one insurance purchasing pool: Ohio School Boards Association Worker's Compensation Group Rating Program. These organizations are presented in Notes 16 and 17 to the basic financial statements.

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

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

**BERNE UNION LOCAL SCHOOL DISTRICT**

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

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

**A. Basis of Presentation**

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

**Government-Wide Financial Statements**

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

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

**Fund Financial Statements**

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

**B. Fund Accounting**

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

**BERNE UNION LOCAL SCHOOL DISTRICT**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2018*

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

**Governmental Funds**

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

The following is the District's major governmental funds:

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

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

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

**Proprietary Funds**

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

**Fiduciary Funds**

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

**C. Measurement Focus**

**Government-Wide Financial Statements**

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



**BERNE UNION LOCAL SCHOOL DISTRICT**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2018*

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

**Fund Financial Statements**

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

**D. Basis of Accounting**

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

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

**E. Cash and Cash Equivalents**

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

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the General Fund during fiscal year 2018 amounted to \$17,323, which includes \$2,180 assigned from other District funds.

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

**F. Inventory**

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

**G. Restricted Assets**

Assets are reported as restricted when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors or laws of other governments or imposed by enabling legislation. Amounts on financial statement represent unspent state mandated set-aside amounts.

**H. Capital Assets**

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

**BERNE UNION LOCAL SCHOOL DISTRICT**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2018*

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

**I. Compensated Absences**

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

**J. Long-Term Obligations**

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

**K. Pensions/Other Postemployment Benefits (OPEB)**

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

**L. Net Cash Position**

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

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

**M. Fund Cash Balance**

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

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

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

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

**BERNE UNION LOCAL SCHOOL DISTRICT**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2018*

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

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

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

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

**N. Operating Receipts and Disbursements**

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

**O. Interfund Transactions**

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

**P. Budgetary Process**

All funds, other than the agency fund, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the appropriation resolution and the certificate of estimated resources, which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amounts that the Board of Education may appropriate. The appropriation resolution is the Board’s authorization to spend resources and sets annual limits on expenditures plus encumbrances at a level of control selected by the Board. The legal level of control has been established by the Board of Education at the fund level. Although the legal level of control has been established at the fund level of expenditures, the District has elected to present the budgetary statement for the General Fund at the fund and function level of expenditures in the basic financial statements. Any revisions that alter the total of any fund appropriations must be approved by the Board of Education.

**BERNE UNION LOCAL SCHOOL DISTRICT**

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

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

The certificate of estimated resources may be amended during the year if projected increases or decreases in receipts are identified by the District Treasurer. The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts in the certificate when the appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts in the final amended certificate issued during fiscal year 2018.

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

**NOTE 3 - ACCOUNTABILITY AND COMPLIANCE**

**A. Change in Accounting Principles**

For fiscal year 2018, the District implemented GASB Statement No. 75, "Accounting and Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans", GASB Statement No. 81, "Irrevocable Split-Interest Agreements", GASB Statement No. 85, "Omnibus 2017", and GASB Statement No. 86, "Certain Debt Extinguishment Issues." The implementation of GASB Statements Nos. 75, 81, 85 and 86 had no effect on the prior period fund balances of the District.

**B. Compliance**

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

**NOTE 4 - BUDGETARY BASIS OF ACCOUNTING**

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

**BERNE UNION LOCAL SCHOOL DISTRICT**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2018*

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**NOTE 4 - BUDGETARY BASIS OF ACCOUNTING** - (Continued)

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

	<u>Net Change in Fund Cash Balance</u>
	<u>General</u>
Cash Basis	\$703,985
Adjustment for encumbrances	(518,576)
Funds budgeted elsewhere**	<u>(6,867)</u>
Budget Basis	<u><u>\$178,542</u></u>

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

**NOTE 5 - DEPOSITS AND INVESTMENTS**

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

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

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

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

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

**BERNE UNION LOCAL SCHOOL DISTRICT**

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

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**NOTE 5 - DEPOSITS AND INVESTMENTS** - (Continued)

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

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

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

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

**BERNE UNION LOCAL SCHOOL DISTRICT**

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

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**NOTE 5 - DEPOSITS AND INVESTMENTS** - (Continued)

**Deposits:** Custodial credit risk is the risk that, in the event of a bank failure, the District's will not be able to recover deposits or collateral securities that are in the possession of an outside party. Although all statutory requirements for the deposit of money had been followed, noncompliance with Federal requirements could potentially subject the District to a successful claim by the Federal Deposit Insurance Corporation.

At June 30, 2018, the carrying amount of all District deposits was \$4,022,578. Based on the criteria described in GASB Statement No. 40, "Deposit and Investment Risk Disclosures", as of June 30, 2018, \$3,803,733 of the District's bank balance of \$4,053,733 was exposed to custodial credit risk as discussed above while \$250,000 was covered by Federal Depository Insurance.

The District has no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by:

Eligible securities pledged to the District and deposited with a qualified trustee by the financial institution as security for repayment whose market value at all times shall be at least 105 percent of the deposits being secured; or

Participation in the Ohio Pooled Collateral System (OPCS), a collateral pool of eligible securities deposited with a qualified trustee and pledged to the Treasurer of State to secure the repayment of all public monies deposited in the financial institution. OPCS requires the total market value of the securities pledged to be 102 percent of the deposits being secured or a rate set by the Treasurer of State.

At June 30, 2018 the District's financial institution participated in the Ohio Pool Collateral System.

**NOTE 6 - PROPERTY TAXES**

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

Property taxes include amounts levied against all real and public utility property located in the District. Real property tax revenue received in calendar 2018 represents collections of calendar year 2017 taxes. Real property taxes received in calendar year 2018 were levied after April 1, 2017, on the assessed value listed as of January 1, 2017, the lien date. Assessed values for real property taxes are established by State 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 2018 represents collections of calendar year 2017 taxes. Public utility real and tangible personal property taxes received in calendar year 2018 became a lien December 31, 2016, were levied after April 1, 2017 and are collected in 2017 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

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

**BERNE UNION LOCAL SCHOOL DISTRICT**

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

**NOTE 6 - PROPERTY TAXES**- (Continued)

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

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

	2017 Second - Half Collections		2018 First - Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential and Other Real Estate	\$98,040,940	71.63%	\$99,522,490	69.67%
Public Utility Personal	38,839,500	28.37%	43,333,370	30.33%
Total Assessed Value	<u>\$136,880,440</u>	<u>100.00%</u>	<u>\$142,855,860</u>	<u>100.00%</u>
Total rate per \$1,000 of assessed valuation	\$44.40		\$44.40	

**NOTE 7 - INCOME TAX**

The District levies a voted income tax of 2.00 percent for general operations on the earned income of residents. The income tax became effective on January 1, 2015. The income tax was increased from 1.00 percent to 2.00 percent by voters in 2014 and continues for 10 years (expires December 31, 2024) as well as changes from a traditional tax base to an earned income tax base. Employers of residents are required to withhold income tax on earned income and remit the tax to the State. Taxpayers are required to file an annual return. The State makes quarterly distributions to the District after withholding amounts for administrative fees and estimated refunds. Income tax receipts of \$2,054,545 were credited to the General Fund for fiscal year 2018.

**NOTE 8 - RISK MANAGEMENT**

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year 2018, the District contracted with Hylant Administrative Services for professional and general liability insurance, fleet insurance and property insurance. Coverage's provided are as follows:

Building/Contents and Boiler/Machinery Building/Contents	\$39,177,826
Fleet Liability (Buses \$1,000 collision and comprehensive all other \$500 deductible for collision and \$250 for comprehensive)	3,000,000
General Liability: Per Occurrence	4,000,000
Aggregate Limit	6,000,000



**BERNE UNION LOCAL SCHOOL DISTRICT**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2018*

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**NOTE 8 - RISK MANAGEMENT** – (Continued)

Public Official Bonds:

Treasurer	50,000
Superintendent	25,000
Board President	25,000

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

For fiscal year 2018, the District participated in the Ohio School Boards Association Worker's Compensation Group Rating Program (GRP) (the Plan), an insurance purchasing pool (Note 17). The intent of the Plan is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the Plan. The worker's compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the Plan. Each participant pays its worker's compensation premium to the State based on the rate for the Plan rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the Plan. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the Plan. Participation in the Plan is limited to school districts that can meet the Plan's selection criteria. The firm Sheakley Unicom provides administrative, cost control and actuarial services to the Plan.

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

Stop loss limits are established by each district participating within the program. For fiscal year 2018, the District had an individual stop loss limit of \$75,000 per person with a \$3 million maximum lifetime limit per person. With this coverage, the District contributions to the program cover the first \$75,000 in claims per individual and anything in excess of this amount is covered by commercial stop loss coverage obtained through commercial carriers. Effective July 1, 2016 claims in excess of the individual predetermined limit established by each district up to \$200,000 will be covered by SCOIC internal pool with anything in excess of that amount covered by commercial carriers.

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

At June 30, 2018, the District's position in the pooled cash and cash equivalents held by SCOIC was a negative \$84,933 due to the large claims incurred in a recent year. This deficit will be recovered by the Program through enhanced premiums over a three year period beginning in fiscal year 2017. The change in claims activity for the past two years is presented below.

**BERNE UNION LOCAL SCHOOL DISTRICT**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2018*

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**NOTE 8 - RISK MANAGEMENT** – (Continued)

<u>Fiscal Year</u>	<u>Balance at Beginning of Year</u>	<u>Current Year Claims</u>	<u>Claims Payments</u>	<u>Balance at End of Year</u>
2017	\$280,600	\$877,073	\$1,056,379	\$101,294
2018	101,294	1,292,650	1,217,451	176,493

**NOTE 9 - DEFINED BENEFIT PENSION PLANS**

**Net Pension Liability**

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

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

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

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

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

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

**BERNE UNION LOCAL SCHOOL DISTRICT**

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

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**NOTE 9 - DEFINED BENEFIT PENSION PLANS** - (Continued)

Age and service requirements for retirement are as follows:

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

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

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

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

**Funding Policy** – Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System's funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2018, the allocation to pension, death benefits, and Medicare B was 13.5 percent. Of the 14 percent employer contribution rate 0.5 percent was allocated to the Health Care Fund for the fiscal year 2018.

The District's contractually required contribution to SERS was \$166,698 for fiscal year 2018.

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

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

**BERNE UNION LOCAL SCHOOL DISTRICT**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2018*

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**NOTE 9 - DEFINED BENEFIT PENSION PLANS** - (Continued)

New members have a choice of three retirement plans; a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. Benefits are established by Ohio Revised Code Chapter 3307. The DB plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service. Effective August 1, 2015, the calculation will be 2.2 percent of final average salary for the five highest years of earnings multiplied by all years of service. With certain exceptions, the basic benefit is increased each year by two percent of the original base benefit. Members are eligible to retire at age 60 with five year of qualifying service or at 55 with 26 years of service credit 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 Statement No. 68 reporting purposes.

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

**Funding Policy** – Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. For the fiscal year ended June 30, 2018, plan members were required to contribute 14 percent of their annual covered salary. The District was required to contribute 14 percent; the entire 14 percent was the portion used to fund pension obligations. The fiscal year 2018 contribution rates were equal to the statutory maximum rates.

The District's contractually required contribution to STRS was \$649,784 for fiscal year 2018.

**BERNE UNION LOCAL SCHOOL DISTRICT**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2018*

**NOTE 9 - DEFINED BENEFIT PENSION PLANS** - (Continued)

**District's Proportionate Share of Net Pension Liability**

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

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportionate Share of the Net Pension Liability	\$2,578,924	\$8,789,712	\$11,368,636
Current Measurement Date	0.04316350%	0.03700119%	
Prior Measurement Date	<u>0.04225850%</u>	<u>0.03454793%</u>	
Change in Proportionate Share	<u>0.00090500%</u>	<u>0.00245326%</u>	

**Actuarial Assumptions - SERS**

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

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

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

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of June 30, 2017, are presented below:

Wage Inflation	3.00 percent
Future Salary Increases, including inflation	3.50 percent to 18.20 percent
COLA or Ad Hoc COLA	2.50 percent
Investment Rate of Return	7.50 percent net of investments expense, including inflation
Actuarial Cost Method	Entry Age Normal

\*Prior to 2017, an assumption of 3.0% was used for COLA or Ad Hoc COLA.

**BERNE UNION LOCAL SCHOOL DISTRICT**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2018*

**NOTE 9 - DEFINED BENEFIT PENSION PLANS** - (Continued)

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

The most recent experience study was completed June 30, 2015.

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

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

**Discount Rate** - The total pension liability was calculated using the discount rate of 7.50 percent. The projection of cash flows used to determine the discount rate assumed the contributions from employers and from the members would be computed based on contribution requirements as stipulated by State statute. Projected inflows from investment 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.

**Sensitivity of the District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate** - Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net pension liability calculated using the discount rate of 7.50 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.

	<u>1% Decrease (6.50%)</u>	<u>Current Discount Rate (7.50%)</u>	<u>1% Increase (8.50%)</u>
District's proportionate share of the net pension liability	\$3,578,876	\$2,578,924	\$1,741,260

**BERNE UNION LOCAL SCHOOL DISTRICT**

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

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**NOTE 9 - DEFINED BENEFIT PENSION PLANS** - (Continued)

**Actuarial Assumptions - STRS**

The total pension liability in the June 30, 2017, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50%
Projected salary increases	12.50% at age 20 to 2.50% at age 65
Investment Rate of Return	7.45%, net of investment expenses, including inflation
Cost-of-Living Adjustments (COLA)	0.00% effective July 1, 2017
Payroll Increases	3.00%

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

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

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

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

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

**BERNE UNION LOCAL SCHOOL DISTRICT**

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

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**NOTE 9 - DEFINED BENEFIT PENSION PLANS** - (Continued)

**Discount Rate** - The discount rate used to measure the total pension liability was 7.45% as of June 30, 2017. The projection of cash flows used to determine the discount rate assumes member and employer contributions will be made at the statutory contribution rates in accordance with rate increases described above. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, STRS' fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 2017. Therefore, the long-term expected rate of return on pension plan investments of 7.45% was applied to all periods of projected benefit payment to determine the total pension liability as of June 30, 2017.

**Sensitivity of the District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate** - The following table presents the District's proportionate share of the net pension liability calculated using the current period discount rate assumption of 7.45%, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.45%) or one-percentage-point higher (8.45%) than the current rate:

	1% Decrease (6.45%)	Current Discount Rate (7.45%)	1% Increase (8.45%)
District's Proportionate Share of the Net Pension Liability	\$12,599,753	\$8,789,712	\$5,580,324

**Assumption Changes Since Prior Measurement Date** – The Retirement Board approved several changes to the actuarial assumptions in 2017. The long term expected rate of return was reduced from 7.75% to 7.45%, the inflation assumption was lowered from 2.75% to 2.50%, the payroll growth assumption was lowered to 3.00%, and total salary increases rate was lowered by decreasing the merit component of the individual salary increases, in addition to a decrease of 0.25% due to lower inflation. The healthy and disabled mortality assumptions were updated to the RP-2014 mortality tables with generational improvement scale MP-2016. Rates of retirement, termination and disability were modified to better reflect anticipated future experience.

**NOTE 10 - POSTEMPLOYMENT BENEFITS**

**Net OPEB Liability**

For fiscal year 2018, Governmental Accounting Standards Board (GASB) Statement No. 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions" was effective. This GASB pronouncement had no effect on beginning net position as reported June 30, 2017, as the net OPEB liability is not reported in the accompanying financial statements. The net OPEB liability has been disclosed below.

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



**BERNE UNION LOCAL SCHOOL DISTRICT**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2018*

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**NOTE 10 - POSTEMPLOYMENT BENEFITS**- (Continued)

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

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

GASB 75 assumes the liability is solely the obligation of the employer, because they benefit from employee services. OPEB contributions come from these employers and health care plan enrollees which pay a portion of the health care costs in the form of a monthly premium. The Ohio revised Code permits, but does not require the retirement systems to provide healthcare to eligible benefit recipients. Any change to benefits or funding could significantly affect the net OPEB liability. Resulting adjustments to the net OPEB liability would be effective when the changes are legally enforceable. The retirement systems may allocate a portion of the employer contributions to provide for these OPEB benefits.

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

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

Access to health care for retirees and beneficiaries is permitted in accordance with Section 3309 of the Ohio Revised Code. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). SERS' Retirement Board reserves the right to change or discontinue any health plan or program. 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.

**BERNE UNION LOCAL SCHOOL DISTRICT**

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

**NOTE 10 - POSTEMPLOYMENT BENEFITS**- (Continued)

**Funding Policy** - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required pensions and benefits, the Retirement Board may allocate the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund in accordance with the funding policy. For fiscal year 2018, 0.5 percent of covered payroll was made to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated if less than a full year of service credit was earned. For fiscal year 2018, this amount was \$23,700. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2018, the District's surcharge obligation was \$21,888.

The surcharge, added to the allocated portion of the 14 percent employer contribution rate is the total amount assigned to the Health Care Fund. The District's contractually required contribution to SERS was \$28,062 for fiscal year 2018.

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

**Plan Description** – The State Teachers Retirement System of Ohio (STRS) administers a cost-sharing Health Plan administered for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS. Ohio law authorizes STRS to offer this plan. Benefits include hospitalization, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums. Medicare Part B premium reimbursements will be discontinued effective January 1, 2020. The Plan is included in the report of STRS which can be obtained by visiting [www.strsoh.org](http://www.strsoh.org) or by calling (888) 227-7877.

**Funding Policy** – Ohio Revised Code Chapter 3307 authorizes STRS to offer the Plan and gives the Retirement Board discretionary authority over how much, if any, of the health care costs will be absorbed by STRS. Active employee members do not contribute to the Health Care Plan. Nearly all health care plan enrollees, for the most recent year, pay a portion of the health care costs in the form of a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2018, STRS did not allocate any employer contributions to post-employment health care.

***Net OPEB Liability***

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

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportionate Share of the Net Pension Liability	\$1,165,204	\$1,443,650	\$2,608,854
Current Measurement Date	0.04341720%	0.03700119%	
Prior Measurement Date	<u>0.04246330%</u>	<u>0.03454793%</u>	
Change in Proportionate Share	<u>0.00095390%</u>	<u>0.00245326%</u>	

**BERNE UNION LOCAL SCHOOL DISTRICT**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2018*

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**NOTE 10 - POSTEMPLOYMENT BENEFITS**- (Continued)

**Actuarial Assumptions - SERS**

The total OPEB liability is determined by SERS' actuaries in accordance with GASB Statement No. 74, as part of their annual actuarial valuation for each retirement plan. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts (e.g., salaries, credited service) and assumptions about the probability of occurrence of events far into the future (e.g., mortality, disabilities, retirements, employment terminations). Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future.

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

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

Key methods and assumptions used in calculating the total OPEB liability in the latest actuarial valuation date of June 30, 2017, are presented below:

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

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

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

**BERNE UNION LOCAL SCHOOL DISTRICT**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2018*

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**NOTE 10 - POSTEMPLOYMENT BENEFITS**- (Continued)

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

The target asset allocation and best estimates of arithmetic real rates of return for each major asset class, as used in the June 30, 2015 five-year experience study, are summarized as follows:

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

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

**BERNE UNION LOCAL SCHOOL DISTRICT**

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

**NOTE 10 - POSTEMPLOYMENT BENEFITS**- (Continued)

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

	<u>1% Decrease (2.63%)</u>	<u>Current Discount Rate (3.63%)</u>	<u>1% Increase (4.63%)</u>
District's proportionate share of the net OPEB liability	\$1,407,132	\$1,165,204	\$973,535

  

	<u>1% Decrease (6.5 % decreasing to 4.0 %)</u>	<u>Current Trend Rate (7.5 % decreasing to 5.0 %)</u>	<u>1% Increase (8.5 % decreasing to 6.0 %)</u>
District's proportionate share of the net OPEB liability	\$945,475	\$1,165,204	\$1,456,018

**Actuarial Assumptions - STRS**

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

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

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

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

**BERNE UNION LOCAL SCHOOL DISTRICT**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2018*

**NOTE 10 - POSTEMPLOYMENT BENEFITS**- (Continued)

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

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

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

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

**Discount Rate** The discount rate used to measure the total OPEB liability was 4.13 percent as of June 30, 2017. The projection of cash flows used to determine the discount rate assumes STRS Ohio continues to allocate no employer contributions to the health care fund. Based on these assumptions, the OPEB plan's fiduciary net position was not projected to be sufficient to make all projected future benefit payments of current plan members. The OPEB plan's fiduciary net position was projected to become insufficient to make future benefit payments during the fiscal year ending June 30, 2037. Therefore, the long-term expected rate of return on OPEB plan assets was used to determine the present value of the projected benefit payments through the fiscal year ending June 30, 2036 and the Bond Buyer 20-year municipal bond rate of 3.58 percent as of June 30, 2017 (i.e. municipal bond rate), was used to determine the present value of the projected benefit payments for the remaining years in the projection. The total present value of projected benefit payments from all years was then used to determine the single rate of return that was used as the discount rate. The blended discount rate of 4.13 percent, which represents the long-term expected rate of return of 7.45 percent for the funded benefit payments and the Bond Buyer 20-year municipal bond rate of 3.58 percent for the unfunded benefit payments, was used to measure the total OPEB liability as of June 30, 2017. A blended discount rate of 3.26 percent which represents the long term expected rate of return of 7.75 percent for the funded benefit payments and the Bond Buyer 20-year municipal bond rate of 2.85 percent for the unfunded benefit payments was used to measure the total OPEB liability at June 30, 2016.

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

**BERNE UNION LOCAL SCHOOL DISTRICT**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2018*

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**NOTE 10 - POSTEMPLOYMENT BENEFITS**- (Continued)

	<u>1% Decrease</u> <u>(3.13%)</u>	<u>Current</u> <u>Discount Rate</u> <u>(4.13%)</u>	<u>1% Increase</u> <u>(5.13%)</u>
District's proportionate share of the net OPEB liability	\$1,938,077	\$1,443,650	\$1,052,891

	<u>1% Decrease</u>	<u>Current</u> <u>Trend Rate</u>	<u>1% Increase</u>
District's proportionate share of the net OPEB liability	\$1,002,986	\$1,443,650	\$2,023,615

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

**Benefit Term Changes Since the Prior Measurement Date** - The subsidy multiplier for non-Medicare benefit recipients was reduced from 2.1% to 1.9% per year of service. Medicare Part B premium reimbursements were discontinued for certain survivors and beneficiaries and all remaining Medicare Part B premium reimbursements will be discontinued beginning January 2019. Subsequent to the current measurement date, the date for discontinuing remaining Medicare Part B premium reimbursements is extended to January 2020.

**NOTE 11 - EMPLOYEE BENEFITS**

**Compensated Absences**

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

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

**BERNE UNION LOCAL SCHOOL DISTRICT**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2018*

**NOTE 12 - LONG-TERM OBLIGATIONS**

The changes in the District's long-term liabilities during fiscal year 2018 were as follows:

	Issue Date	Interest Rate	Principal Outstanding at July 1, 2017	Additions	Deductions	Principal Outstanding at June 30, 2018	Amount Due In One Year
<i>Governmental Activities:</i>							
HB 264 Energy Loan	2007	3.99%	\$120,612	\$0	\$120,612	\$0	\$0
HB 264 Energy Conservation Notes	2015	3.34%	387,355	0	23,870	363,485	25,056
Lease Purchase Agreement	2015	3.40%	1,615,180	0	96,428	1,518,752	104,464
Total Governmental Activities Long-Term Obligations			<u>\$2,123,147</u>	<u>\$0</u>	<u>\$240,910</u>	<u>\$1,882,237</u>	<u>\$129,520</u>

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

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

The annual requirements to retire the general obligation debt outstanding at June 30, 2018 are as follows:

Fiscal Year Ending June 30,	HB 264 Energy Conservation Notes		
	Principal	Interest	Total
2019	\$25,056	\$11,921	\$36,977
2020	25,900	11,077	36,977
2021	26,772	10,204	36,976
2022	27,673	9,303	36,976
2023	28,605	8,371	36,976
2024-2028	158,144	26,737	184,881
2029-2030	<u>71,335</u>	<u>2,987</u>	<u>74,322</u>
Total Debt	<u>\$363,485</u>	<u>\$80,600</u>	<u>\$444,085</u>

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

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



**BERNE UNION LOCAL SCHOOL DISTRICT**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2018*

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

Principal and interest components of the scheduled base rent payments outstanding at June 30, 2018 are shown below.

Fiscal Year Ending June 30,	Principal	Interest	Total
2019	\$104,464	\$50,749	\$155,213
2020	104,464	47,198	151,662
2021	112,500	43,578	156,078
2022	112,500	39,753	152,253
2023	120,536	35,859	156,395
2024-2028	662,948	115,160	778,108
2029-2030	301,340	12,909	314,249
Total Debt	<u>\$1,518,752</u>	<u>\$345,206</u>	<u>\$1,863,958</u>

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

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

The District's overall legal debt margin was \$10,975,159 with an unvoted debt margin of \$142,856 at June 30, 2018.

**BERNE UNION LOCAL SCHOOL DISTRICT**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2018*

**NOTE 13 – FUND CASH BALANCES**

As of June 30, 2018, fund cash balances are composed of the following:

	<u>General</u>	<u>Permanent Improvement</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<i>Nonspendable:</i>				
Unclaimed Monies	\$1,912	\$0	\$0	\$1,912
<i>Restricted:</i>				
Set Asides	5,364	0	0	5,364
Capital Improvements	0	134,887	0	134,887
Facilities Maintenance	0	0	32,835	32,835
Federal Grants	0	0	3,817	3,817
Food Service	0	0	129,470	129,470
Athletics/Band	0	0	12,387	12,387
<i>Total Restrictd</i>	<u>5,364</u>	<u>134,887</u>	<u>178,509</u>	<u>318,760</u>
<i>Assigned:</i>				
Uniform School Supplies	5,048	0	0	5,048
Public School Support	5,294	0	0	5,294
Student Instruction	241,041	0	0	241,041
Student and Staff Support	277,534	0	0	277,534
Subsequent Appropriations	3,021,523	0	0	3,021,523
<i>Total Assigned</i>	<u>3,550,440</u>	<u>0</u>	<u>0</u>	<u>3,550,440</u>
<i>Unassigned</i>	<u>37,776</u>	<u>0</u>	<u>0</u>	<u>37,776</u>
 Total Fund Balances	 <u>\$3,595,492</u>	 <u>\$134,887</u>	 <u>\$178,509</u>	 <u>\$3,908,888</u>

**NOTE 14 - STATUTORY SET-ASIDES**

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

The following changes occurred in the District set-aside reserve accounts during fiscal year 2018:

	<u>Capital Acquisition</u>
Set-Aside Reserve Balance as of June 30, 2017	\$6,204
Current Year Set-Aside Requirement	155,682
Qualifying Disbursements	<u>(156,522)</u>
Totals	<u>5,364</u>
Set-Aside Balance Carried Forward to Future Fiscal Years	<u>\$5,364</u>

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

**BERNE UNION LOCAL SCHOOL DISTRICT**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2018*

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**NOTE 15 – ENCUMBRANCE COMMITMENTS**

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

	<u>Year-End Encumbrances</u>
General Fund	\$518,576
Permanent Improvement	45,013
Nonmajor governmental funds	<u>77,180</u>
Total	<u><u>\$640,769</u></u>

**NOTE 16 - JOINTLY GOVERNED ORGANIZATIONS**

**Metropolitan Educational Technology Association (META) Solutions**

The District is a participant in META Solutions which is a computer consortium that resulted from the mergers between Tri-Rivers Educational Computer Association (TRECA), Metropolitan Educational Council (MEC), Metropolitan Dayton Educational Cooperative Association (MDECA), Southeastern Ohio Voluntary Education Cooperative (SEOVEC), and South Central Ohio Computer Association (SCOCA). META Solutions develops, implements and supports the technology and instructional needs of schools in a cost-effective manner. META Solutions provides instructional, core, technology and purchasing services for its member districts. The Board of Directors consists of the Superintendents from eleven of the member districts. During fiscal year 2018, the District paid META Solutions \$59,571 for services. Financial information can be obtained from Dave Varda, who serves as Chief Financial Officer, 100 Executive Drive, Marion, Ohio 43302.

**South Central Ohio Insurance Consortium (SCOIC)**

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

**NOTE 17 - INSURANCE PURCHASING POOL**

**Ohio School Boards Association Worker’s Compensation Group Rating Program**

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

**BERNE UNION LOCAL SCHOOL DISTRICT**

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

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**NOTE 18 - CONTINGENCIES**

**A. Grants**

The District received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, the effect of any such disallowed claims on the overall financial position of the District at June 30, 2018, if applicable, cannot be determined at this time.

**B. Litigation**

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

**C. School Foundation**

District Foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. Effective for the 2014-2015 school year, traditional school districts must comply with minimum hours of instruction, instead of a minimum number of school days each year. The funding formula the Ohio Department of Education (ODE) is legislatively required to follow will continue to adjust as enrollment information is updated by the District, which can extend past the fiscal year end. As of the date of this report, ODE has not finalized the impact of enrollment adjustments to the June 30, 2018 fiscal year. Adjustments to foundation funding resulting from these reviews are adjusted through subsequent foundation settlement from the State.

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

	2018	2017	2016	2015	2014
<b><u>School Employees Retirement System of Ohio</u></b>					
District's Proportion of the Net Pension Liability	0.0431635%	0.0422585%	0.0408237%	0.0380880%	0.0380880%
District's Proportionate Share of the Net Pension Liability	\$2,578,924	\$3,092,932	\$2,329,440	\$1,927,612	\$2,264,971
District's Covered Payroll	\$1,409,479	\$1,388,893	\$1,218,146	\$1,117,937	\$1,122,175
District's Proportionate Share of the Net Pension Liability as a Percentage of it's Covered Payroll	182.97%	222.69%	191.23%	172.43%	201.04%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	69.50%	62.98%	69.16%	71.70%	65.52%
<b><u>State Teachers Retirement System of Ohio</u></b>					
District's Proportion of the Net Pension Liability	0.03700119%	0.03454793%	0.03329147%	0.0329850%	0.0329850%
District's Proportionate Share of the Net Pension Liability	\$8,789,712	\$11,564,234	\$9,200,789	\$8,099,343	\$9,647,884
District's Covered Payroll	\$3,954,564	\$3,409,943	\$3,103,507	\$3,663,892	\$3,772,523
District's Proportionate Share of the Net Pension Liability as a Percentage of it's Covered Payroll	222.27%	339.13%	296.46%	224.06%	255.14%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	75.30%	66.80%	72.10%	74.70%	63.90%

(1) Information prior to 2014 is not available. The District will continue to present information for years available until a full ten-year trend is presented.

Amounts presented as of the District's measurement date which is the prior fiscal year.

*Changes in Assumptions* : For fiscal year 2017, SERS reported changes of assumptions which included a reduction in the discount rate from 7.75 percent to 7.50 percent, a decrease of wage inflation from 3.25 percent to 3.00 percent, a reduction in investment rate of return from 7.75 percent to 7.50 percent, a reduction of future salary increases, and an adjustment to assumed life expectancies as result of adopting the RP-2014 Blue Collar Mortality Table for the purpose of developing mortality rates.

**BERNE UNION LOCAL SCHOOL DISTRICT**  
*Schedule of the District Contributions for Pension*  
*Last Six Fiscal Years (1)*

	2018	2017	2016	2015	2014	2013
<b><u>School Employees Retirement System of Ohio</u></b>						
Contractually Required Contributions	\$166,698	\$197,327	\$194,445	\$168,835	\$154,946	\$155,309
Contributions in Relation to the Contractually Required Contributions	(166,698)	(197,327)	(194,445)	(168,835)	(154,946)	(155,309)
Contribution Deficiency (Excess)	\$0	\$0	\$0	\$0	\$0	\$0
District Covered Payroll	\$1,234,800	\$1,409,479	\$1,388,893	\$1,218,146	\$1,117,937	\$1,122,175
Contributions as a Percentage of Covered Payroll	13.50%	14.00%	14.00%	13.86%	13.86%	13.84%
<b><u>State Teachers Retirement System of Ohio</u></b>						
Contractually Required Contributions	\$649,784	\$553,639	\$477,392	\$434,533	\$476,306	\$490,428
Contributions in Relation to the Contractually Required Contributions	(649,784)	(553,639)	(477,392)	(434,533)	(476,306)	(490,428)
Contribution Deficiency (Excess)	\$0	\$0	\$0	\$0	\$0	\$0
District Covered Payroll	\$4,641,314	\$3,954,564	\$3,409,943	\$3,103,507	\$3,663,892	\$3,772,523
Contributions as a Percentage of Covered Payroll	14.00%	14.00%	14.00%	14.00%	13.00%	13.00%

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

**BERNE UNION LOCAL SCHOOL DISTRICT**  
*Schedule of the District's Proportionate Share of Other Postemployment Benefits Liability*  
*Last Two Fiscal Years (1)*

	<u>2018</u>	<u>2017</u>
<b><u>School Employees Retirement System of Ohio</u></b>		
District's Proportion of the Other Postemployment Benefits Liability	0.04341720%	0.04246330%
District's Proportionate Share of the Other Postemployment Benefits Liability	\$1,165,204	\$1,237,551
District's Covered Payroll	\$1,409,479	\$1,388,893
District's Proportionate Share of the Other Postemployment Benefits Liability as a Percentage of it's Covered Payroll	82.67%	89.10%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	12.46%	11.49%
<b><u>State Teachers Retirement System of Ohio</u></b>		
District's Proportion of the Other Postemployment Benefits Liability	0.03700119%	0.03454793%
District's Proportionate Share of the Other Postemployment Benefits Liability	\$1,443,650	\$1,978,833
District's Covered Payroll	\$3,954,564	\$3,409,943
District's Proportionate Share of the Other Postemployment Benefits Liability as a Percentage of it's Covered Payroll	36.51%	58.03%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	47.10%	37.30%

(1) Information prior to 2017 is not available. The District will continue to present information for years available until a full ten-year trend is presented.

Amounts presented as of the District's measurement date which is the prior fiscal year.

**BERNE UNION LOCAL SCHOOL DISTRICT**  
*Schedule of the District Contributions for Other Postemployment Benefits*  
*Last Three Fiscal Years (1)*

	<u>2018</u>	<u>2017</u>	<u>2016</u>
<b><u>School Employees Retirement System of Ohio</u></b>			
Contractually Required Contributions/Surcharge	\$28,062	\$21,888	\$19,936
Contributions in Relation to the Contractually Required Contributions	<u>(28,062)</u>	<u>(21,888)</u>	<u>(19,936)</u>
Contribution Deficiency (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
District Covered Payroll	\$1,234,800	\$1,409,479	\$1,388,893
Contributions as a Percentage of Covered Payroll	2.27%	1.55%	1.44%
<b><u>State Teachers Retirement System of Ohio</u></b>			
Contractually Required Contributions	\$0	\$0	\$0
Contributions in Relation to the Contractually Required Contributions	<u>0</u>	<u>0</u>	<u>0</u>
Contribution Deficiency (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
District Covered Payroll	\$4,641,314	\$3,954,564	\$3,409,943
Contributions as a Percentage of Covered Payroll	0.00%	0.00%	0.00%

(1) Information prior to 2016 is not available. The District will continue to present information for years available until a full ten-year trend is presented.



**BERNE UNION LOCAL SCHOOL DISTRICT**

*Notes to the Supplementary Information*

*For the Fiscal Year Ended June 30, 2018*

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**NOTE 1 – SCHOOL EMPLOYEES RETIREMENT SYSTEM OF OHIO**

**Other Postemployment Benefits**

**Assumption Changes Since the Prior Measurement Date** - The discount rate used to measure the total OPEB liability at June 30, 2017 was 3.63 percent. The discount rate used to measure total OPEB liability prior to June 30, 2017 was 2.98 percent.

**NOTE 2 - STATE TEACHERS RETIREMENT SYSTEM OF OHIO**

**Pension**

**Assumption Changes Since Prior Measurement Date** – The Retirement Board approved several changes to the actuarial assumptions in 2017. The long term expected rate of return was reduced from 7.75% to 7.45%, the inflation assumption was lowered from 2.75% to 2.50%, the payroll growth assumption was lowered to 3.00%, and total salary increases rate was lowered by decreasing the merit component of the individual salary increases, in addition to a decrease of 0.25% due to lower inflation. The healthy and disabled mortality assumptions were updated to the RP-2014 mortality tables with generational improvement scale MP-2016. Rates of retirement, termination and disability were modified to better reflect anticipated future experience.

**Other Postemployment Benefits**

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

**Benefit Term Changes Since the Prior Measurement Date** - The subsidy multiplier for non-Medicare benefit recipients was reduced from 2.1% to 1.9% per year of service. Medicare Part B premium reimbursements were discontinued for certain survivors and beneficiaries and all remaining Medicare Part B premium reimbursements will be discontinued beginning January 2019. Subsequent to the current measurement date, the date for discontinuing remaining Medicare Part B premium reimbursements is extended to January 2020.

**BERNE UNION LOCAL SCHOOL DISTRICT**

*Management's Discussion and Analysis*

*For the Fiscal Year Ended June 30, 2017*

*(Unaudited)*

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

**Financial Highlights**

- ▶ Total net cash position of the District at June 30, 2017 is \$3,082,869. This balance was comprised of a \$372,077 balance in net position amounts restricted for specific purposes and a balance of \$2,710,792 in unrestricted net position.
- ▶ In total, net cash position of governmental activities decreased by \$796,754, which represents a 20.62 percent decrease from 2016. Net cash position of the business-type activities decreased \$2,060 which represents 11.96 percent decrease from 2016.
- ▶ General receipts accounted for \$9,082,740 or 77.96 percent of all receipts of governmental activities. Program specific receipts in the form of charges for services and sales, operating grants and contributions accounted for \$2,567,413 or 22.04 percent of total receipts of \$11,650,153 for the governmental activities.
- ▶ The District had \$12,446,907 in disbursements related to governmental activities; only \$2,567,413 of these disbursements were offset by program specific charges for services and sales, operating grants or contributions. General receipts (primarily taxes and grants and entitlements) of \$9,082,740 along with net cash position from the prior year were used to provide for the remainder of these programs.
- ▶ The District had \$58,681 in disbursements related to business-type activities; \$56,621 of these disbursements were offset by program specific charges for services and sales, and net cash position from the prior year.
- ▶ The District recognizes two major governmental funds: the General Fund and the Permanent Improvement Fund. In terms of dollars received and spent, the General Fund is significantly larger than all the other funds of the District combined. The General Fund had \$10,684,116 in receipts and \$10,641,739 in disbursements in fiscal year 2017.

**Using this Annual Report**

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

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

**BERNE UNION LOCAL SCHOOL DISTRICT**

*Management's Discussion and Analysis*

*For the Fiscal Year Ended June 30, 2017*

*(Unaudited)*

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**Reporting the District as a Whole**

**Government-Wide Financial Statements – Cash Basis**

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

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

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

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

**Governmental Activities**

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

**Business-Type Activities**

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

**BERNE UNION LOCAL SCHOOL DISTRICT**

*Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2017  
(Unaudited)*

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

**Fund Financial Statements**

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

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

**Governmental Funds**

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

**Proprietary Funds**

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

**Fiduciary Funds**

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

**BERNE UNION LOCAL SCHOOL DISTRICT**  
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(Unaudited)

**Notes to the Basic Financial Statements**

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

**Government-Wide Financial Analysis**

Recall that the statement of net cash position provides the perspective of the District as a whole, showing cash and net cash position. Table 1 provides a summary of the District's net cash position for 2017 compared to fiscal year 2016:

**Table 1**  
**Net Cash Position**

	Governmental Activities		Business-Type Activities		Total	
	2017	2016	2017	2016	2017	2016
<b><u>Cash Assets:</u></b>						
Cash and Cash Equivalents	\$3,350,951	\$4,316,207	\$15,169	\$17,229	\$3,366,120	\$4,333,436
<i>Total Cash Assets</i>	3,350,951	4,316,207	15,169	17,229	3,366,120	4,333,436
<b><u>Cash Liabilities:</u></b>						
Deficit in Pooled Cash and Cash Equivalents with Fiscal Agent	283,251	451,753	0	0	283,251	451,753
<i>Total Cash Liabilities</i>	283,251	451,753	0	0	283,251	451,753
<b><u>Net Cash Position:</u></b>						
Restricted	372,077	1,368,582	0	0	372,077	1,368,582
Unrestricted	2,695,623	2,495,872	15,169	17,229	2,710,792	2,513,101
<i>Total Net Cash Position</i>	\$3,067,700	\$3,864,454	\$15,169	\$17,229	\$3,082,869	\$3,881,683

Total Cash and Cash Equivalents decreased \$967,316 from fiscal year 2016. There was a significant increase in disbursements from the prior year, and a significant decrease in receipts from the prior year but overall, disbursements outpaced receipts during the year. Due to spending of debt proceeds received in prior year during the current year.

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

The remaining balance of \$372,077 is restricted. The restricted net cash position is subject to external restrictions on how they may be used.

**BERNE UNION LOCAL SCHOOL DISTRICT**

*Management's Discussion and Analysis*

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Table 2 shows the changes in net cash position for fiscal year 2017 and provides a comparison to fiscal year 2016.

	<b>Changes in Net Cash Position</b>					
	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
<b><u>Receipts:</u></b>						
<i>Program Receipts:</i>						
Charges for Services and Sales	\$980,523	\$892,796	\$56,621	\$82,137	\$1,037,144	\$974,933
Operating Grants and Contributions	1,586,890	1,487,142	0	0	1,586,890	1,487,142
<i>General Receipts:</i>						
Property Taxes	3,321,548	3,071,011	0	0	3,321,548	3,071,011
Income Taxes	2,005,896	1,803,935	0	0	2,005,896	1,803,935
Unrestricted Grants and Entitlements	3,615,927	3,669,746	0	0	3,615,927	3,669,746
Investment Earnings	9,497	8,185	0	0	9,497	8,185
Payments in Lieu of Taxes	10,070	0	0	0	10,070	0
Lease Purchase Agreement	0	1,800,000	0	0	0	1,800,000
Energy Conservation Notes Issued	0	435,000	0	0	0	435,000
Miscellaneous	119,802	90,350	0	0	119,802	90,350
<i>Total Receipts</i>	<u>11,650,153</u>	<u>13,258,165</u>	<u>56,621</u>	<u>82,137</u>	<u>11,706,774</u>	<u>13,340,302</u>

(Continued)

**BERNE UNION LOCAL SCHOOL DISTRICT**

*Management's Discussion and Analysis*

*For the Fiscal Year Ended June 30, 2017*

*(Unaudited)*

Table 2  
**Changes in Net Cash Position**

	Governmental Activities		Business-Type Activities		Total	
	2017	2016	2017	2016	2017	2016
<b><u>Disbursements</u></b>						
<i>Program Disbursements:</i>						
<i>Instruction:</i>						
Regular	4,634,270	4,093,940	0	0	4,634,270	4,093,940
Special	1,970,937	1,788,547	0	0	1,970,937	1,788,547
Vocational	37,359	71,978	0	0	37,359	71,978
<i>Support Services:</i>						
Pupils	370,876	303,810	0	0	370,876	303,810
Instructional Staff	157,125	169,359	0	0	157,125	169,359
Board of Education	50,922	44,552	0	0	50,922	44,552
Administration	1,009,778	1,047,848	0	0	1,009,778	1,047,848
Fiscal	484,488	478,579	0	0	484,488	478,579
Business	7,909	6,679	0	0	7,909	6,679
Operation and Maintenance of Plant	1,820,916	1,469,015	0	0	1,820,916	1,469,015
Pupil Transportation	913,967	743,722	0	0	913,967	743,722
Central	5,330	5,123	0	0	5,330	5,123
<i>Operation of Non-Instructional Services:</i>						
Food Services	338,827	296,359	0	0	338,827	296,359
Extracurricular Activities	259,193	261,194	0	0	259,193	261,194
Capital Outlay	0	412,391	0	0	0	412,391
<i>Debt Service:</i>						
Principal	302,535	288,840	0	0	302,535	288,840
Interest and Fiscal Charges	82,475	80,328	0	0	82,475	80,328
Preschool	0	0	58,681	87,535	58,681	87,535
Total Disbursements	12,446,907	11,562,264	58,681	87,535	12,505,588	11,649,799
Changes In Net Cash Position	(796,754)	1,695,901	(2,060)	(5,398)	(798,814)	1,690,503
Net Cash Position -Beginning of Year	3,864,454	2,168,553	17,229	22,627	3,881,683	2,191,180
Net Cash Position -End of Year	\$3,067,700	\$3,864,454	\$15,169	\$17,229	\$3,082,869	\$3,881,683

**BERNE UNION LOCAL SCHOOL DISTRICT**

*Management's Discussion and Analysis*

*For the Fiscal Year Ended June 30, 2017*

*(Unaudited)*

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The most significant governmental activities program disbursements for the District are Regular Instruction, Special Instruction, Operation and Maintenance of Plant, Administration, and Pupil Transportation. These programs account for 83.15 percent of the total governmental activities. Regular Instruction, which accounts for 37.23 percent of the total, represents costs associated with providing general educational services. Special Instruction, which represents 15.84 percent of the total, represents costs associated with providing educational services for handicapped, disadvantaged and other special needs students. Operation and Maintenance of Plant, which represents 14.63 percent of the total, represents costs associated with operating and maintaining the District's facilities. Administration, which represents 8.11 percent of the total, represents costs associated with the overall administrative responsibility for each building and the District as a whole. Pupil Transportation, which represents 7.34 percent of the total cost, represents costs associated with transporting students to and from school, as well as to activities.

As noted previously, the net cash position for the governmental activities decreased \$796,754 or 20.62 percent. This is a decrease from last year when net cash position increased \$1,695,901 or 78.20 percent. For the governmental activities, total receipts decreased \$1,608,012 or 12.13 percent from last year and disbursements increased \$884,643 or 7.65 percent from last year.

The District's governmental activities had an increase in program receipts of \$187,475, as well as a decrease in general receipts of \$1,795,487. The decrease in general receipts is primarily due to the issuance of Energy Conservation bonds and entering into a lease purchase arrangement in the prior year while the increase in programs receipts is mostly due to an increase in operating grants.

The total disbursements for governmental activities increased primarily from an increase of \$540,330 in regular instruction, \$351,901 in operation and maintenance of plant, and \$170,245 in pupil transportation disbursements.

The majority of the funding for the most significant programs indicated above is from property taxes, income taxes and unrestricted grants and entitlements. Property taxes, income taxes and unrestricted grants and entitlements account for 76.77 percent of total receipts for governmental activities.

The net position for the business-type activities decreased \$2,060. The business-type activities had \$56,621 of program receipts and \$58,681 of program disbursements. For the business-type activities, total receipts decreased \$25,516 or 31.07 percent from last year and disbursements decreased \$28,854 or 32.96 percent from last year.

**Governmental Activities**

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

The District is heavily dependent on local taxes and intergovernmental revenue and, like most Ohio schools, is hampered by a lack of revenue growth. Property taxes made up 28.51 percent, income taxes made up 17.22 percent and intergovernmental revenue (unrestricted and operating grants) made up 31.04 percent of the total revenue for the governmental activities in fiscal year 2017.



**BERNE UNION LOCAL SCHOOL DISTRICT**

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

The District's intergovernmental receipts consist of school foundation basic allowance, homestead and rollback property tax allocation, and federal and state grants. During fiscal year 2017, the District received \$4,275,945 through the State's foundation program, which represents 36.70 percent of the total receipts for the governmental activities. The District relies heavily on this state funding to operate at the current levels of service.

Instruction accounts for 53.37 percent of governmental activities program disbursements. Support services disbursements make up 38.55 percent of governmental activities program disbursements. The statement of activities shows the cost of program services and charges for services and grants offsetting those services.

**Business-Type Activities**

Business-type activities include the Preschool activities. This program had program receipts of \$56,621 and disbursements of \$58,681 for fiscal year 2017. All of the program receipts were from tuition and fees.

Table 3 shows, the total cost of services and the net cost of services for fiscal year 2017 and comparison to fiscal year 2016. That is, it identifies the cost of these services supported by tax revenue and unrestricted State entitlements.

Table 3  
**Net Cost of Activities**

	<u>Total Cost of Services</u>		<u>Net Cost of Services</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
<b><u>Program Disbursements:</u></b>				
<i>Governmental Activities:</i>				
Instruction	\$6,642,566	\$5,954,465	\$4,951,758	\$4,447,652
Support Services	4,821,311	4,268,687	4,353,697	3,814,065
Operation of Non-Instructional Services	338,827	296,359	25,310	(21,230)
Extracurricular Activities	259,193	261,194	163,719	160,280
Capital Outlay	0	412,391	0	412,391
Principal	302,535	288,840	302,535	288,840
Interest and Fiscal Charges	82,475	80,328	82,475	80,328
<i>Business-Type Activities:</i>				
Preschool	<u>58,681</u>	<u>87,535</u>	<u>2,060</u>	<u>5,398</u>
Total Disbursements	<u>\$12,505,588</u>	<u>\$11,649,799</u>	<u>\$9,881,554</u>	<u>\$9,187,724</u>

**BERNE UNION LOCAL SCHOOL DISTRICT**

*Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2017  
(Unaudited)*

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**The District's Funds**

The District's governmental funds are accounted for using the cash basis of accounting. (See Note 2 for discussion of significant accounting policies). All governmental funds had total receipts of \$11,650,153 and disbursements of \$12,598,412.

The total fund balance of governmental funds decreased by \$948,259. The decrease in fund balance for the year was most significant in the Permanent Improvement Fund where there was a decrease of \$917,863, due to spending debt proceeds from the prior year.

**Budget Highlights - General Fund**

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

During the course of fiscal year 2017, the District did not amend its General Fund budget from the original budget. The District uses a modified site-based budget technique that is designed to control site budgets while providing building administrators and supervisor's flexibility for site management.

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

For the General Fund, the final budget basis receipts were \$10,545,778 representing no change from the original budget estimates. Also, the final budget basis disbursements were \$10,640,502 and reflect no change from the original budget estimates.

**Debt Administration**

At June 30, 2017, the District had \$2,123,147 in general obligation debt outstanding with \$241,279 due within one year. Table 4 summarizes the general obligation debt outstanding for fiscal year 2017 compared to fiscal year 2016.

Table 4  
**Outstanding Debt, Governmental Activities at Year End**

<u>Purpose</u>	<u>2017</u>	<u>2016</u>
Energy Conservation Loan	\$120,612	\$243,847
Energy Conservation Notes	387,355	410,805
Lease Purchase Agreement	1,615,180	1,711,608
Capital Lease	0	59,422
Total General Obligation Debt	<u>\$2,123,147</u>	<u>\$2,425,682</u>

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

**BERNE UNION LOCAL SCHOOL DISTRICT**

*Management's Discussion and Analysis*

*For the Fiscal Year Ended June 30, 2017*

*(Unaudited)*

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**Current Issues**

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

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

The District voters approved a 10 year earned income tax replacement levy of 2 percent in May 2014, for tax years 2015-2024. In fiscal year 2017 this generated \$2,005,896 in receipts for general operations, which is inflated due to the blending of the old and new rates. When fully implemented this will generate an estimated \$1,600,000 a year.

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

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

**Contacting the District's Financial Management**

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

**BERNE UNION LOCAL SCHOOL DISTRICT**

*Statement of Net Position - Cash Basis*

*June 30, 2017*

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	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
<b><u>Cash Assets:</u></b>			
Equity in Pooled Cash and Cash Equivalents	<u>\$3,350,951</u>	<u>\$15,169</u>	<u>\$3,366,120</u>
<i>Total Assets</i>	<u>3,350,951</u>	<u>15,169</u>	<u>3,366,120</u>
<b><u>Cash Liabilities:</u></b>			
Deficit in Pooled Cash and Cash Equivalents with Fiscal Agent	<u>283,251</u>	<u>0</u>	<u>283,251</u>
<i>Total Liabilities</i>	<u>283,251</u>	<u>0</u>	<u>283,251</u>
<b><u>Net Cash Position:</u></b>			
<i>Restricted for:</i>			
Capital Improvements	180,867	0	180,867
Set Asides	6,204	0	6,204
Food Service Operations	133,051	0	133,051
Facilities Maintenance	45,609	0	45,609
Other Purposes	6,346	0	6,346
Unrestricted	<u>2,695,623</u>	<u>15,169</u>	<u>2,710,792</u>
<i>Total Net Cash Position</i>	<u><u>\$3,067,700</u></u>	<u><u>\$15,169</u></u>	<u><u>\$3,082,869</u></u>

See accompanying notes to the basic financial statements.

**BERNE UNION LOCAL SCHOOL DISTRICT**

Statement of Activities - Cash Basis  
For the Fiscal Year Ended June 30, 2017

	Program Cash Receipts			Net (Cash Disbursements) Cash Receipts and Changes in Net Cash Position		
	Cash Disbursements	Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities	Business-Type Activities	Total
<b><u>Governmental Activities:</u></b>						
<i>Instruction:</i>						
Regular	\$4,634,270	\$765,065	\$93,933	(\$3,775,272)	\$0	(\$3,775,272)
Special	1,970,937	0	825,815	(1,145,122)	0	(1,145,122)
Vocational	37,359	0	5,995	(31,364)	0	(31,364)
<i>Support Services:</i>						
Pupils	370,876	0	0	(370,876)	0	(370,876)
Instructional Staff	157,125	0	18,679	(138,446)	0	(138,446)
Board of Education	50,922	0	0	(50,922)	0	(50,922)
Administration	1,009,778	0	0	(1,009,778)	0	(1,009,778)
Fiscal	484,488	0	0	(484,488)	0	(484,488)
Business	7,909	0	0	(7,909)	0	(7,909)
Operation and Maintenance of Plant	1,820,916	0	4,516	(1,816,400)	0	(1,816,400)
Pupil Transportation	913,967	0	440,819	(473,148)	0	(473,148)
Central	5,330	0	3,600	(1,730)	0	(1,730)
<i>Operation of Non-Instructional Services:</i>						
Food Service	338,827	119,984	193,533	(25,310)	0	(25,310)
Extracurricular Activities	259,193	95,474	0	(163,719)	0	(163,719)
<i>Debt Service:</i>						
Principal	302,535	0	0	(302,535)	0	(302,535)
Interest and Fiscal Charges	82,475	0	0	(82,475)	0	(82,475)
<b>Total Governmental Activities</b>	<b>12,446,907</b>	<b>980,523</b>	<b>1,586,890</b>	<b>(9,879,494)</b>	<b>0</b>	<b>(9,879,494)</b>
<b><u>Business-Type Activities:</u></b>						
Preschool	58,681	56,621	0	0	(2,060)	(2,060)
<b>Total Business-Type Activities</b>	<b>58,681</b>	<b>56,621</b>	<b>0</b>	<b>0</b>	<b>(2,060)</b>	<b>(2,060)</b>
<b>Totals</b>	<b>\$12,505,588</b>	<b>\$1,037,144</b>	<b>\$1,586,890</b>	<b>(9,879,494)</b>	<b>(2,060)</b>	<b>(9,881,554)</b>
<b><u>General Cash Receipts:</u></b>						
<i>Property Taxes Levied for:</i>						
General Purposes				3,275,943	0	3,275,943
Capital Outlay				45,605	0	45,605
Income Taxes Levied for General Purposes				2,005,896	0	2,005,896
Grants and Entitlements not Restricted to Specific Programs				3,615,927	0	3,615,927
Payments in Lieu of Taxes				10,070	0	10,070
Investment Earnings				9,497	0	9,497
Miscellaneous				119,802	0	119,802
<b>Total General Cash Receipts</b>				<b>9,082,740</b>	<b>0</b>	<b>9,082,740</b>
Changes in Net Cash Position				(796,754)	(2,060)	(798,814)
<i>Net Cash Position at Beginning of Year</i>				3,864,454	17,229	3,881,683
<i>Net Cash Position at End of Year</i>				<b>\$3,067,700</b>	<b>\$15,169</b>	<b>\$3,082,869</b>

See accompanying notes to the basic financial statements

**BERNE UNION LOCAL SCHOOL DISTRICT**  
*Statement of Cash Basis Assets and Fund Cash Balances*  
*Governmental Funds*  
*June 30, 2017*

	General	Permanent Improvement	Other Governmental Funds	Total Governmental Funds
<b><u>Cash Assets:</u></b>				
Equity in Pooled Cash and Cash Equivalents	\$2,885,303	\$180,867	\$185,006	\$3,251,176
<b><u>Restricted Cash Assets:</u></b>				
Equity in Pooled Cash and Cash Equivalents	6,204	0	0	6,204
<i>Total Cash Assets</i>	<u>\$2,891,507</u>	<u>\$180,867</u>	<u>\$185,006</u>	<u>\$3,257,380</u>
<b><u>Fund Cash Balances:</u></b>				
Nonspendable	\$1,843	\$0	\$0	\$1,843
Restricted	6,204	180,867	185,006	372,077
Assigned	2,883,460	0	0	2,883,460
<i>Total Fund Cash Balances</i>	<u>\$2,891,507</u>	<u>\$180,867</u>	<u>\$185,006</u>	<u>\$3,257,380</u>

See accompanying notes to the basic financial statements.

**BERNE UNION LOCAL SCHOOL DISTRICT**  
*Reconciliation of Total Governmental Fund Cash Balances to  
Net Cash Position of Governmental Activities  
June 30, 2017*

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**Total Governmental Fund Cash Balances** \$3,257,380

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

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

(189,680)

*Net Cash Position of Governmental Activities*

\$3,067,700

See accompanying notes to the basic financial statements.

**BERNE UNION LOCAL SCHOOL DISTRICT**  
*Statement of Cash Receipts, Cash Disbursements and Changes in Fund Cash Balances*  
*Governmental Funds*  
*For the Fiscal Year Ended June 30, 2017*

	General	Permanent Improvement	Other Governmental Funds	Total Governmental Funds
<b><u>Cash Receipts:</u></b>				
Property Taxes	\$3,275,943	\$0	\$45,605	\$3,321,548
Income Tax	2,005,896	0	0	2,005,896
Intergovernmental	4,490,838	0	711,679	5,202,517
Interest	9,497	0	0	9,497
Tuition and Fees	765,065	0	0	765,065
Extracurricular Activities	7,250	0	88,224	95,474
Payment in Lieu of Taxes	9,918	0	152	10,070
Gifts and Donations	0	0	300	300
Customer Sales and Services	0	0	119,984	119,984
Miscellaneous	119,709	0	93	119,802
<b>Total Cash Receipts</b>	<b>10,684,116</b>	<b>0</b>	<b>966,037</b>	<b>11,650,153</b>
<b><u>Cash Disbursements:</u></b>				
<i>Current:</i>				
<i>Instruction:</i>				
Regular	4,691,842	0	93,933	4,785,775
Special	1,570,908	0	400,029	1,970,937
Vocational	37,359	0	0	37,359
<i>Support Services:</i>				
Pupils	370,876	0	0	370,876
Instructional Staff	135,863	0	21,262	157,125
Board of Education	50,922	0	0	50,922
Administration	1,009,778	0	0	1,009,778
Fiscal	483,626	0	862	484,488
Business	7,909	0	0	7,909
Operation and Maintenance of Plant	817,441	962,877	40,598	1,820,916
Pupil Transportation	913,967	0	0	913,967
Central	1,730	0	3,600	5,330
<i>Operation of Non-Instructional Services:</i>				
Food Service Operations	0	0	338,827	338,827
Extracurricular Activities	164,508	0	94,685	259,193
<i>Debt Service:</i>				
Principal Retirement	302,535	0	0	302,535
Interest and Fiscal Charges	82,475	0	0	82,475
<b>Total Cash Disbursements</b>	<b>10,641,739</b>	<b>962,877</b>	<b>993,796</b>	<b>12,598,412</b>
<b><u>Other Financing Sources (Uses):</u></b>				
Transfers In	0	45,014	0	45,014
Transfers Out	0	0	(45,014)	(45,014)
<b>Total Other Financing Sources (Uses)</b>	<b>0</b>	<b>45,014</b>	<b>(45,014)</b>	<b>0</b>
<b>Net Changes in Fund Cash Balances</b>	<b>42,377</b>	<b>(917,863)</b>	<b>(72,773)</b>	<b>(948,259)</b>
<b>Fund Cash Balances at Beginning of Year</b>	<b>2,849,130</b>	<b>1,098,730</b>	<b>257,779</b>	<b>4,205,639</b>
<b>Fund Cash Balances at End of Year</b>	<b>\$2,891,507</b>	<b>\$180,867</b>	<b>\$185,006</b>	<b>\$3,257,380</b>

See accompanying notes to the basic financial statements.



**BERNE UNION LOCAL SCHOOL DISTRICT**  
*Reconciliation of the Statement of Cash Receipts, Cash Disbursements and Changes  
in Fund Cash Balances of Governmental Funds to the Statement of Activities  
For the Fiscal Year Ended June 30, 2017*

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**Net Change in Fund Cash Balances - Total Governmental Funds** (948,259)

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

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

151,505

*Change in Net Cash Position of Governmental Activities*

(\$796,754)

See accompanying notes to the basic financial statements.

**BERNE UNION LOCAL SCHOOL DISTRICT**  
*Statement of Receipts, Disbursements and Changes*  
*in Cash Basis Fund Balance - Budget and Actual (Budget Basis)*  
*General Fund*  
*For the Fiscal Year Ended June 30, 2017*

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
<b><u>Receipts:</u></b>				
Property Taxes	\$3,275,943	\$3,275,943	\$3,275,943	\$0
Income Tax	2,005,896	2,005,896	2,005,896	0
Intergovernmental	4,406,067	4,406,067	4,490,838	84,771
Interest	7,800	7,800	9,497	1,697
Tuition and Fees	756,783	756,783	757,984	1,201
Extracurricular Activities	7,150	7,150	7,250	100
Payments in Lieu of Taxes	9,918	9,918	9,918	0
Miscellaneous	76,221	76,221	80,180	3,959
<i>Total Receipts</i>	<u>10,545,778</u>	<u>10,545,778</u>	<u>10,637,506</u>	<u>91,728</u>
<b><u>Disbursements:</u></b>				
<i>Current:</i>				
<i>Instruction:</i>				
Regular	4,378,133	4,378,133	4,763,035	(384,902)
Special	1,501,455	1,501,455	1,656,914	(155,459)
Vocational	77,856	77,856	37,359	40,497
<i>Support Services:</i>				
Pupils	333,258	333,258	371,605	(38,347)
Instructional Staff	140,127	140,127	149,103	(8,976)
Board of Education	49,447	49,447	50,992	(1,545)
Administration	992,235	992,235	976,545	15,690
Fiscal	465,361	465,361	487,697	(22,336)
Business	12,563	12,563	12,263	300
Operation and Maintenance of Plant	1,091,107	1,091,107	1,062,707	28,400
Pupil Transportation	1,006,396	1,006,396	977,499	28,897
Central	1,675	1,675	1,730	(55)
Extracurricular Activities	183,270	183,270	173,888	9,382
Capital Outlay	22,609	22,609	0	22,609
<i>Debt Service:</i>				
Principal Retirement	302,535	302,535	302,535	0
Interest and Fiscal Charges	82,475	82,475	82,475	0
<i>Total Disbursements</i>	<u>10,640,502</u>	<u>10,640,502</u>	<u>11,106,347</u>	<u>(465,845)</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	(94,724)	(94,724)	(468,841)	(374,117)
<b><u>Other Financing (Uses):</u></b>				
Transfers Out	(2,746,360)	(2,746,360)	0	2,746,360
<i>Total Other Financing (Uses)</i>	<u>(2,746,360)</u>	<u>(2,746,360)</u>	<u>0</u>	<u>2,746,360</u>
<i>Net Change in Fund Balances</i>	(2,841,084)	(2,841,084)	(468,841)	2,372,243
<i>Fund Balance at Beginning of Year</i>	2,018,490	2,018,490	2,018,490	0
<i>Prior Year Encumbrances Appropriated</i>	822,594	822,594	822,594	0
<i>Fund Balance at End of Year</i>	<u>\$0</u>	<u>\$0</u>	<u>\$2,372,243</u>	<u>\$2,372,243</u>

See accompanying notes to the basic financial statements

**BERNE UNION LOCAL SCHOOL DISTRICT**

*Statement of Fund Net Position - Cash Basis*

*Proprietary Funds*

*June 30, 2017*

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	<u>Business-Type Activities</u>	<u>Governmental Activities</u>
	<u>Other Enterprise</u>	<u>Internal Service</u>
<b><u>Cash Assets:</u></b>		
<i>Current Cash Assets:</i>		
Equity in Pooled Cash and Cash Equivalents	\$15,169	\$93,571
<i>Total Cash Assets</i>	<u>15,169</u>	<u>93,571</u>
<b><u>Cash Liabilities:</u></b>		
Deficit in Pooled Cash and Cash Equivalents with Fiscal Agent	0	283,251
<i>Total Cash Liabilities</i>	<u>0</u>	<u>283,251</u>
<b><u>Net Cash Position:</u></b>		
Unrestricted	15,169	(189,680)
<i>Total Net Cash Position</i>	<u>\$15,169</u>	<u>(\$189,680)</u>

See accompanying notes to the basic financial statements.

**BERNE UNION LOCAL SCHOOL DISTRICT**  
*Statement of Cash Receipts, Cash  
Disbursements and Changes in Fund Net Position - Cash Basis  
Proprietary Funds  
For the Fiscal Year Ended June 30, 2017*

	Business-Type Activities	Governmental Activities
	Other Enterprise	Internal Service
<b><u>Operating Cash Receipts:</u></b>		
Tuition	\$56,621	\$0
Charges for Services	0	1,503,605
<i>Total Operating Cash Receipts</i>	56,621	1,503,605
<b><u>Operating Cash Disbursements:</u></b>		
Salaries	27,837	0
Fringe Benefits	8,413	0
Purchased Services	1,616	295,721
Materials and Supplies	20,815	0
Claims	0	1,056,379
<i>Total Operating Cash Disbursements</i>	58,681	1,352,100
<i>Operating Income(Loss)</i>	(2,060)	151,505
<i>Net Cash Position at Beginning of Year</i>	17,229	(341,185)
<i>Net Cash Position at End of Year</i>	<u>\$15,169</u>	<u>(\$189,680)</u>

See accompanying notes to the basic financial statements.

**BERNE UNION LOCAL SCHOOL DISTRICT**  
*Statement of Fiduciary Net Position - Cash Basis*  
*Fiduciary Funds*  
*June 30, 2017*

	Private Purpose Trust	Agency
<b><u>Cash Assets:</u></b>		
Equity in Pooled Cash and Cash Equivalents	\$5,768	\$26,629
<b><u>Net Cash Position:</u></b>		
Held in Trust for Scholarships	5,768	0
Unrestricted	0	26,629
<i>Total Net Cash Position</i>	\$5,768	\$26,629

See accompanying notes to the basic financial statements.

**BERNE UNION LOCAL SCHOOL DISTRICT**  
*Statement of Changes in Fiduciary Net Position - Cash Basis*  
*Fiduciary Fund*  
*For the Fiscal Year Ended June 30, 2017*

	Private Purpose Trust
<i><b>Additions</b></i>	
Contributions and Gifts	\$6,500
<i><b>Deductions</b></i>	
Payments in Accordance with Trust Agreements	2,000
<i>Change in Net Cash Position</i>	4,500
<i>Net Cash Position at Beginning of Year</i>	1,268
<i>Net Cash Position at End of Year</i>	\$5,768

See accompanying notes to the basic financial statements.

**BERNE UNION LOCAL SCHOOL DISTRICT**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2017*

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

**Description of the School District**

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

The District was established through the consolidation of existing land areas and school districts. It is staffed by 39 non-certificated employees, 62 certificated full-time teaching personnel and 4 administrative employees who provide services to 940 students and other community members.

**Reporting Entity**

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

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

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

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

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

**BERNE UNION LOCAL SCHOOL DISTRICT**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2017*

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

**A. Basis of Presentation**

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

**Government-Wide Financial Statements**

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

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

**Fund Financial Statements**

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

**B. Fund Accounting**

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



**BERNE UNION LOCAL SCHOOL DISTRICT**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2017*

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

**Governmental Funds**

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

The following is the District's major governmental funds:

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

**Permanent Improvement Fund**- This fund is used to account for financial resources to be used for the acquisition, construction or improvement of capital facilities.

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

**Proprietary Funds**

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

**Fiduciary Funds**

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

**C. Measurement Focus**

**Government-Wide Financial Statements**

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

**BERNE UNION LOCAL SCHOOL DISTRICT**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2017*

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

**Fund Financial Statements**

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

**D. Basis of Accounting**

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

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

**E. Cash and Cash Equivalents**

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

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the General Fund during fiscal year 2017 amounted to \$9,497, which includes \$2,466 assigned from other District funds.

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

**F. Inventory**

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

**G. Restricted Assets**

Assets are reported as restricted when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors or laws of other governments or imposed by enabling legislation. Amounts on financial statement represent unspent state mandated set-aside amounts.

**H. Capital Assets**

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

**BERNE UNION LOCAL SCHOOL DISTRICT**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2017*

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

**I. Compensated Absences**

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

**J. Long-Term Obligations**

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

**K. Pension**

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

**L. Net Cash Position**

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

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

**M. Fund Cash Balance**

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

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

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

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

**BERNE UNION LOCAL SCHOOL DISTRICT**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2017*

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

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

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

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

**N. Operating Receipts and Disbursements**

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

**O. Interfund Transactions**

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

**P. Budgetary Process**

All funds, other than the agency fund, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the appropriation resolution and the certificate of estimated resources, which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amounts that the Board of Education may appropriate. The appropriation resolution is the Board’s authorization to spend resources and sets annual limits on expenditures plus encumbrances at a level of control selected by the Board. The legal level of control has been established by the Board of Education at the fund level. Although the legal level of control has been established at the fund level of expenditures, the District has elected to present the budgetary statement for the General Fund at the fund and function level of expenditures in the basic financial statements. Any revisions that alter the total of any fund appropriations must be approved by the Board of Education.

**BERNE UNION LOCAL SCHOOL DISTRICT**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2017*

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

The certificate of estimated resources may be amended during the year if projected increases or decreases in receipts are identified by the District Treasurer. The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts in the certificate when the appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts in the final amended certificate issued during fiscal year 2017.

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

**NOTE 3 - ACCOUNTABILITY AND COMPLIANCE**

**A. Change in Accounting Principles**

For fiscal year 2017, the District implemented GASB Statement No. 74, "Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans", GASB Statement No. 77, "Tax Abatement Disclosures", GASB Statement No. 78, "Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans", GASB Statement No. 80, "Blending Requirements for Certain Component Units", and GASB Statement No. 82, "Pension Issues." The implementation of GASB Statements Nos. 74, 77, 78, 80 and 82 had no effect on the prior period fund balances of the District.

**B. Compliance**

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

**NOTE 4 - BUDGETARY BASIS OF ACCOUNTING**

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

**BERNE UNION LOCAL SCHOOL DISTRICT**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2017*

**NOTE 4 - BUDGETARY BASIS OF ACCOUNTING** - (Continued)

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

	<u>Net Change in Fund Cash Balance</u>
	<u>General</u>
Cash Basis	\$42,377
Adjustment for encumbrances	(513,883)
Funds budgeted elsewhere**	<u>2,665</u>
Budget Basis	<u><u>(\$468,841)</u></u>

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

**NOTE 5 - DEPOSITS AND INVESTMENTS**

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

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

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

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

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

**BERNE UNION LOCAL SCHOOL DISTRICT**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2017*

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**NOTE 5 - DEPOSITS AND INVESTMENTS** - (Continued)

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

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

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

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

**BERNE UNION LOCAL SCHOOL DISTRICT**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2017*

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**NOTE 5 - DEPOSITS AND INVESTMENTS** - (Continued)

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

At June 30, 2017, the carrying amount of all District deposits was \$3,398,517. Based on the criteria described in GASB Statement No. 40, "Deposit and Investment Risk Disclosures", as of June 30, 2017, \$3,228,780 of the District's bank balance of \$3,478,780 was exposed to custodial credit risk as discussed above while \$250,000 was covered by Federal Depository Insurance. The \$3,228,780 exposed to custodial risk was collateralized with securities held by the pledging financial institution or its agent in the District's name.

**NOTE 6 - PROPERTY TAXES**

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

Property taxes include amounts levied against all real and public utility property located in the District. Real property tax revenue received in calendar 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 2017 represents collections of calendar year 2017 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 in 2016 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

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

The District receives property taxes from Fairfield and Hocking Counties. The County Auditors periodically advance to the District its portion of the taxes collected. Second-half real property tax payments collected by the Counties by June 30, 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.



**BERNE UNION LOCAL SCHOOL DISTRICT**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2017*

**NOTE 6 - PROPERTY TAXES**- (Continued)

The assessed values upon which the fiscal year 2017 taxes were collected are:

	2016 Second - Half Collections		2017 First - Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential and Other Real Estate	\$95,041,420	74.86%	\$98,040,940	71.63%
Public Utility Personal	31,915,730	25.14%	38,839,500	28.37%
Total Assessed Value	<u>\$126,957,150</u>	<u>100.00%</u>	<u>\$136,880,440</u>	<u>100.00%</u>
Total rate per \$1,000 of assessed valuation	\$44.40		\$44.40	

**NOTE 7 - INCOME TAX**

The District levies a voted income tax of 2.00 percent for general operations on the earned income of residents. The income tax became effective on January 1, 2015. The income tax was increased from 1.00 percent to 2.00 percent by voters in 2014 and continues for 10 years (expires December 31, 2024) as well as changes from a traditional tax base to an earned income tax base. Employers of residents are required to withhold income tax on earned income and remit the tax to the State. Taxpayers are required to file an annual return. The State makes quarterly distributions to the District after withholding amounts for administrative fees and estimated refunds. Income tax receipts of \$2,005,896 were credited to the General Fund for fiscal year 2017.

**NOTE 8 - RISK MANAGEMENT**

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year 2017, the District contracted with Hylant Administrative Services for professional and general liability insurance, fleet insurance and property insurance. Coverage's provided are as follows:

Building/Contents and Boiler/Machinery Building/Contents	\$38,598,844
Fleet Liability (Buses \$1,000 collision and comprehensive all other \$500 deductible for collision and \$250 for comprehensive)	3,000,000
General Liability: Per Occurrence	4,000,000
Aggregate Limit	6,000,000
Public Official Bonds:	
Treasurer	50,000
Superintendent	25,000
Board President	25,000

**BERNE UNION LOCAL SCHOOL DISTRICT**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2017*

**NOTE 8 - RISK MANAGEMENT** – (Continued)

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

For fiscal year 2017, the District participated in the Ohio School Boards Association Worker's Compensation Group Rating Program (GRP) (the Plan), an insurance purchasing pool (Note 18). The intent of the Plan is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the Plan. The worker's compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the Plan. Each participant pays its worker's compensation premium to the State based on the rate for the Plan rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the Plan. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the Plan. Participation in the Plan is limited to school districts that can meet the Plan's selection criteria. The firm Sheakley Unicom provides administrative, cost control and actuarial services to the Plan.

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

Stop loss limits are established by each district participating within the program. For fiscal year 2017, the District had an individual stop loss limit of \$75,000 per person with a \$3 million maximum lifetime limit per person. With this coverage, the District contributions to the program cover the first \$75,000 in claims per individual and anything in excess of this amount is covered by commercial stop loss coverage obtained through commercial carriers. Effective July 1, 2016 claims in excess of the individual predetermined limit established by each district up to \$200,000 will be covered by SCOIC internal pool with anything in excess of that amount covered by commercial carriers.

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

At June 30, 2017, the District's position in the pooled cash and cash equivalents held by SCOIC was a negative \$283,251 due to the large claims incurred during the prior year. This deficit will be recovered by the Program through enhanced premiums over three years period beginning in fiscal year 2017. The change in claims activity for the past two years is presented below.

<u>Fiscal Year</u>	<u>Balance at Beginning of Year</u>	<u>Current Year Claims</u>	<u>Claims Payments</u>	<u>Balance at End of Year</u>
2017	\$280,600	\$877,073	\$1,056,379	\$101,294
2016	140,200	1,568,306	1,427,906	280,600

**BERNE UNION LOCAL SCHOOL DISTRICT**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2017*

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**NOTE 9 - DEFINED BENEFIT PENSION PLANS**

**Net Pension Liability**

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

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

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

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

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

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

**BERNE UNION LOCAL SCHOOL DISTRICT**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2017*

**NOTE 9 - DEFINED BENEFIT PENSION PLANS** - (Continued)

Age and service requirements for retirement are as follows:

	Eligible to Retire on or before August 1, 2017 *	Eligible to Retire on or after August 1, 2017
Full Benefits	Any age with 30 years of service credit Age 65 with 5 years service credit	Age 67 with 10 years of service credit; or Age 57 with 30 years of service credit
Actuarially Reduced Benefits	Age 60 with 5 years of service credit Age 55 with 25 years of service credit	Age 62 with 10 years of service credit; or Age 60 with 25 years of service credit

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

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

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

**Funding Policy** – Plan members are required to contribute 10 percent of their annual covered salary and the 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. Of the 14 percent employer contribution rate none was allocated to the Health Care Fund for the fiscal year 2017.

The District's contractually required contribution to SERS was \$197,327 for fiscal year 2017.

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

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

**BERNE UNION LOCAL SCHOOL DISTRICT**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2017*

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**NOTE 9 - DEFINED BENEFIT PENSION PLANS** - (Continued)

New members have a choice of three retirement plans; a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. Benefits are established by Ohio Revised Code Chapter 3307. The DB plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service. Effective August 1, 2015, the calculation will be 2.2 percent of final average salary for the five highest years of earnings multiplied by all years of service. With certain exceptions, the basic benefit is increased each year by two percent of the original base benefit. For members retiring August 1, 2013, or later, the first two percent is paid on the fifth anniversary of the retirement benefit. Members are eligible to retire at age 60 with five year of qualifying age 55 with 25 years of service or, service credit 30 years of service regardless of age. Age and service requirements for retirement will increase effective August 1, 2017, and will continue to increase periodically until they reach age 60 with 35 years of service or age 65 with five year of service on August 1, 2026.

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

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

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

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

**Funding Policy** – Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. For the fiscal year ended June 30, 2017, plan members were required to contribute 14 percent of their annual covered salary. The District was required to contribute 14 percent; the entire 14 percent was the portion used to fund pension obligations. The fiscal year 2017 contribution rates were equal to the statutory maximum rates.

The District's contractually required contribution to STRS was \$553,639 for fiscal year 2017.

**BERNE UNION LOCAL SCHOOL DISTRICT**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2017*

**NOTE 9 - DEFINED BENEFIT PENSION PLANS** - (Continued)

**District's Proportionate Share of Net Pension Liability**

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 District's proportion of the net pension liability was based on the District's share of contributions to the pension plan relative to the projected contributions of all participating entities. Following is information related to the proportionate share:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportion Share of the Net Pension Liability	\$3,092,932	\$11,564,234	14,657,166
Current Measurement Date	0.04225900%	0.03454800%	
Prior Measurement Date	0.04082370%	0.03329147%	
Change in Proportionate Share	<u>0.00143530%</u>	<u>0.00125653%</u>	

**Actuarial Assumptions - SERS**

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

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

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, are presented below:

Wage Inflation	3.00 percent
Future Salary Increases, including inflation	3.50 percent to 18.20 percent
COLA or Ad Hoc COLA	3 percent
Investment Rate of Return	7.50 percent net of investments expense, including inflation
Actuarial Cost Method	Entry Age Normal

**BERNE UNION LOCAL SCHOOL DISTRICT**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2017*

**NOTE 9 - DEFINED BENEFIT PENSION PLANS** - (Continued)

For post-retirement mortality, the table used in evaluating allowances to be paid is the RP-2014 Blue Collar Mortality Table set back one year for both men and women. Special mortality tables are used for the period after disability retirement.

The most recent experience study was completed June 30, 2015.

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long Term Expected Real Rate of Return</u>
Cash	1.00 %	0.50 %
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	<u>10.00</u>	3.00
Total	<u>100.00 %</u>	

**Discount Rate** - The total pension liability was calculated using the discount rate of 7.50 percent. The projection of cash flows used to determine the discount rate assumed the contributions from employers and from the members would be computed based on contribution requirements as stipulated by State statute. Projected inflows from investment 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.

**Sensitivity of the District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate** - Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net pension liability calculated using the discount rate of 7.50 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%)
District's proportionate share of the net pension liability	\$4,094,850	\$3,092,932	\$2,254,286

**BERNE UNION LOCAL SCHOOL DISTRICT**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2017*

**NOTE 9 - DEFINED BENEFIT PENSION PLANS** - (Continued)

In April 2016, the SERS Board adopted certain assumption changes which impacted their annual actuarial valuation prepared as of June 30, 2016. The significant changes include a reduction in the discount rate from 7.75 percent to 7.50 percent, a decrease of wage inflation from 3.25 percent to 3.00 percent, a reduction in investment rate of return from 7.75 percent to 7.50 percent, a reduction of future salary increases, and an adjustment to assumed life expectancies as result of adopting the RP-2014 Blue Collar Mortality Table for the purpose of developing mortality rates.

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

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

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

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

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

\* 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.



**BERNE UNION LOCAL SCHOOL DISTRICT**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2017*

**NOTE 9 - DEFINED BENEFIT PENSION PLANS** - (Continued)

**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 from future plan members, are not included. Based on those assumptions, STRS' fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 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 District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate** -The following table presents the District's proportionate share of the net pension liability calculated using the current period discount rate assumption of 7.75 percent, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.75 percent) or one-percentage-point higher (8.75 percent) than the current rate:

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
District's proportionate share of the net pension liability	\$15,367,927	\$11,564,234	\$8,355,594

**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.

**NOTE 10 - POSTEMPLOYMENT BENEFITS**

**School Employee Retirement System**

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

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

**BERNE UNION LOCAL SCHOOL DISTRICT**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2017*

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**NOTE 10 - POSTEMPLOYMENT BENEFITS- (Continued)**

The Ohio Revised Code provides the statutory authority to fund SERS' postemployment benefits through employer contributions. Active members do not make contributions to the postemployment benefit plan. The Health Care Fund was established under, and is administered in accordance with Internal Revenue Code 105(e). Each year after the allocation for statutorily required pensions and benefits, the Retirement Board may allocate the remainder of the employer 14% contribution to the Health Care Fund in accordance with the funding policy. For the year ended June 30, 2017, the health care allocation was 0.00%. 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. By statute no employer shall pay a health care surcharge greater than 2.0% of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5% of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2017, the minimum compensation level was established at \$23,000. The surcharge, added to the unallocated portion of the 14% employer contribution rate is the total amount assigned to the Health Care Fund. The District's assigned to health care for the years ended June 30, 2017, 2016, and 2015 were \$0, \$0 and \$20,748, respectively.

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

The financial reports of SERS' Health Care plan are included in its Comprehensive Annual Financial Report. That report can be obtained on SERS' website at [www.ohsers.org](http://www.ohsers.org) under Employers/Audit Resources.

**School Teachers Retirement System**

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

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

**Funding Policy** – Ohio Revised Code Chapter 3307 authorizes STRS to offer the Plan and gives the Retirement Board discretionary authority over how much, if any, of the health care costs will be absorbed by STRS. Active employee members do not contribute to the Health Care Plan. Nearly all health care plan enrollees, for the most recent year, pay a portion of the health care costs in the form of a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2017, STRS did not allocate any employer contributions to post-employment health care.

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

**BERNE UNION LOCAL SCHOOL DISTRICT**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2017*

**NOTE 11 - EMPLOYEE BENEFITS**

**Compensated Absences**

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

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

**NOTE 12 - LONG-TERM OBLIGATIONS**

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

	<u>Issue Date</u>	<u>Interest Rate</u>	<u>Principal Outstanding at July 1, 2016</u>	<u>Additions</u>	<u>Deductions</u>	<u>Principal Outstanding at June 30, 2017</u>	<u>Amount Due In One Year</u>
<i>Governmental Activities:</i>							
HB 264 Energy Loan	2007	3.99%	\$243,847	\$0	\$123,235	\$120,612	\$120,612
HB 264 Energy Conservation Notes	2015	3.34%	410,805	0	23,450	387,355	24,239
Lease Purchase Agreement	2015	3.40%	1,711,608	0	96,428	1,615,180	96,428
Capital Lease			<u>59,422</u>	<u>0</u>	<u>59,422</u>	<u>0</u>	<u>0</u>
Total Governmental Activities Long-Term Obligations			<u>\$2,425,682</u>	<u>\$0</u>	<u>\$302,535</u>	<u>\$2,123,147</u>	<u>\$241,279</u>

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

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

**BERNE UNION LOCAL SCHOOL DISTRICT**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2017*

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

The annual requirements to retire the general obligation debt outstanding at June 30, 2017 are as follows:

Fiscal Year Ending June 30,	HB 264 Energy Loan		HB 264 Energy Conservation Notes	
	Principal	Interest	Principal	Interest
2018	\$120,612	\$4,850	\$24,239	\$12,737
2019	0	0	25,056	11,921
2020	0	0	25,900	11,077
2021	0	0	26,772	10,204
2022	0	0	27,673	9,303
2023-2027	0	0	152,991	31,890
2028-2030	0	0	104,724	6,205
Total Debt	<u>\$120,612</u>	<u>\$4,850</u>	<u>\$387,355</u>	<u>\$93,337</u>

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

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

Principal and interest components of the scheduled base rent payments outstanding at June 30, 2017 are shown below.

Fiscal Year Ending June 30,	Principal	Interest	Total
2018	\$96,428	\$54,096	\$150,524
2019	104,464	50,749	155,213
2020	104,464	47,198	151,662
2021	112,500	43,578	156,078
2022	112,500	39,753	152,253
2023-2027	638,842	137,085	775,927
2028-2030	445,982	26,843	472,825
Total Debt	<u>\$1,615,180</u>	<u>\$399,302</u>	<u>\$2,014,482</u>

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

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

**BERNE UNION LOCAL SCHOOL DISTRICT**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2017*

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

The District's overall legal debt margin was \$10,196,093 with an unvoted debt margin of \$136,880 at June 30, 2017.

**NOTE 13 - CAPITAL LEASES - LESSEE DISCLOSURE**

The District entered into capital lease for buses in the amount of \$178,310. This lease meets the criteria of a capital lease which is defined as one which transfers benefits and risks of ownership to the lessee. Capital lease payments have been reclassified and are reflected as debt service expenditures in the basic financial statements for the governmental funds. However, these expenditures are reported as current expenditures on the budgetary statement. This capital lease was completely retired during fiscal year 2017 through the General Fund.

**NOTE 14 - FUND CASH BALANCES**

As of June 30, 2017, fund cash balances are composed of the following:

	<u>General</u>	<u>Permanent Improvement</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<i>Nonspendable:</i>				
Unclaimed Monies	\$1,843	\$0	\$0	\$1,843
<i>Restricted:</i>				
Set Asides	6,204	0	0	6,204
Capital Improvements	0	180,867	0	180,867
Facilities Maintenance	0	0	45,609	45,609
Federal Grants	0	0	1,569	1,569
Food Service	0	0	133,051	133,051
Athletics/Band	0	0	4,777	4,777
<i>Total Restricted</i>	<u>6,204</u>	<u>180,867</u>	<u>185,006</u>	<u>372,077</u>
<i>Assigned:</i>				
Uniform School Supplies	993	0	0	993
Public School Support	2,551	0	0	2,551
Student Instruction	9,380	0	0	9,380
Student and Staff Support	504,503	0	0	504,503
Subsequent Appropriations	2,366,033	0	0	2,366,033
<i>Total Assigned</i>	<u>2,883,460</u>	<u>0</u>	<u>0</u>	<u>2,883,460</u>
 Total Fund Balances	<u>\$2,891,507</u>	<u>\$180,867</u>	<u>\$185,006</u>	<u>\$3,257,380</u>

**BERNE UNION LOCAL SCHOOL DISTRICT**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2017*

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**NOTE 15 - STATUTORY SET-ASIDES**

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

The following changes occurred in the District set-aside reserve accounts during fiscal year 2017:

	<u>Capital Acquisition</u>
Set-Aside Reserve Balance as of June 30, 2016	\$12,073
Current Year Set-Aside Requirement	153,013
Qualifying Disbursements	<u>(158,882)</u>
Totals	<u>6,204</u>
Set-Aside Balance Carried Forward to Future Fiscal Years	<u><u>\$6,204</u></u>

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

**NOTE 16 - ENCUMBRANCE COMMITMENTS**

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

	<u>Year-End Encumbrances</u>
General Fund	\$513,883
Permanent Improvement	32,036
Nonmajor governmental funds	<u>32,684</u>
Total	<u><u>\$578,603</u></u>

**BERNE UNION LOCAL SCHOOL DISTRICT**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2017*

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**NOTE 17 - JOINTLY GOVERNED ORGANIZATIONS**

**Metropolitan Educational Technology Association (META) Solutions**

The District is a participant in META Solutions which is a computer consortium that resulted from the mergers between Tri-Rivers Educational Computer Association (TRECA), Metropolitan Educational Council (MEC), Metropolitan Dayton Educational Cooperative Association (MDECA), Southeastern Ohio Voluntary Education Cooperative (SEOVEC), and South Central Ohio Computer Association (SCOCA). META Solutions develops, implements and supports the technology and instructional needs of schools in a cost-effective manner. META Solutions provides instructional, core, technology and purchasing services for its member districts. The Board of Directors consists of the Superintendents from eleven of the member districts. During fiscal year 2017, the District paid META Solutions \$59,571 for services. Financial information can be obtained from Dave Varda, who serves as Chief Financial Officer, 100 Executive Drive, Marion, Ohio 43302.

**South Central Ohio Insurance Consortium (SCOIC)**

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

**NOTE 18 - INSURANCE PURCHASING POOL**

**Ohio School Boards Association Worker's Compensation Group Rating Program**

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

**NOTE 19 - CONTINGENCIES**

**A. Grants**

The District received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, the effect of any such disallowed claims on the overall financial position of the District at June 30, 2017, if applicable, cannot be determined at this time.

**B. Litigation**

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

**BERNE UNION LOCAL SCHOOL DISTRICT**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2017*

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**NOTE 19 - CONTINGENCIES- (Continued)**

**C. School Foundation**

District Foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. Effective for the 2014-2015 school year, traditional school districts must comply with minimum hours of instruction, instead of a minimum number of school days each year. The funding formula the Ohio Department of Education (ODE) is legislatively required to follow will continue to adjust as enrollment information is updated by the District, which can extend past the fiscal year end. As of the date of this report, ODE has not finalized the impact of enrollment adjustments to the June 30, 2017 fiscal year. Adjustments to foundation funding resulting from these reviews are adjusted through subsequent foundation settlement from the State.



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

	2017	2016	2015	2014
<b><u>School Employees Retirement System of Ohio</u></b>				
District's Proportion of the Net Pension Liability (Asset)	0.042259%	0.040824%	0.038088%	0.038088%
District's Proportionate Share of the Net Pension Liability (Asset)	\$3,092,932	\$2,329,440	\$1,927,612	\$2,264,971
District's Covered Payroll	\$1,388,893	\$1,218,146	\$1,117,937	\$1,122,175
District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of it's Covered Payroll	222.69%	191.23%	172.43%	201.84%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	62.98%	69.16%	71.70%	65.52%
<b><u>State Teachers Retirement System of Ohio</u></b>				
District's Proportion of the Net Pension Liability (Asset)	0.034548%	0.033291%	0.032985%	0.032985%
District's Proportionate Share of the Net Pension Liability (Asset)	\$11,564,234	\$9,200,789	\$8,099,343	\$9,647,884
District's Covered Payroll	\$3,409,943	\$3,103,507	\$3,663,892	\$3,772,523
District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of it's Covered Payroll	339.13%	296.46%	221.06%	255.74%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	66.80%	72.10%	74.70%	63.90%

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

Amounts presented as of the District's measurement date which is the prior fiscal year.

*Changes in Assumptions:* For fiscal year 2017, SERS reported changes of assumptions which included a reduction in the discount rate from 7.75 percent to 7.50 percent, a decrease of wage inflation from 3.25 percent to 3.00 percent, a reduction in investment rate of return from 7.75 percent to 7.50 percent, a reduction of future salary increases, and an adjustment to assumed life expectancies as result of adopting the RP-2014 Blue Collar Mortality Table for the purpose of developing mortality rates.

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

	2017	2016	2015	2014	2013
<b><u>School Employees Retirement System of Ohio</u></b>					
Contractually Required Contributions	\$197,327	\$194,445	\$168,835	\$154,946	\$155,309
Contributions in Relation to the Contractually Required Contributions	(197,327)	(194,445)	(168,835)	(154,946)	(155,309)
Contribution Deficiency (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
District Covered-Employee Payroll	\$1,409,479	\$1,388,893	\$1,218,146	\$1,117,937	\$1,122,175
Contributions as a Percentage of Covered-Employee Payroll	14.00%	14.00%	13.86%	13.86%	13.84%
<b><u>State Teachers Retirement System of Ohio</u></b>					
Contractually Required Contributions	\$553,639	\$477,392	\$434,533	\$476,306	\$490,428
Contributions in Relation to the Contractually Required Contributions	(553,639)	(477,392)	(434,533)	(476,306)	(490,428)
Contribution Deficiency (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
District Covered-Employee Payroll	\$3,954,564	\$3,409,943	\$3,103,507	\$3,663,892	\$3,772,523
Contributions as a Percentage of Covered-Employee Payroll	14.00%	14.00%	14.00%	13.00%	13.00%

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

*Changes in Assumptions:* For fiscal year 2017, SERS reported changes of assumptions which included a reduction in the discount rate from 7.75 percent to 7.50 percent, a decrease of wage inflation from 3.25 percent to 3.00 percent, a reduction in investment rate of return from 7.75 percent to 7.50 percent, a reduction of future salary increases, and an adjustment to assumed life expectancies as result of adopting the RP-2014 Blue Collar Mortality Table for the purpose of developing mortality rates.

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

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the Berne Union Local School District (the District), as of and for the years ended June 30, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated December 14, 2018, wherein we noted the District prepared its financial statements on the cash basis of accounting, which is a basis other than accounting principles generally accepted in the United States of America.

**Internal Control Over Financial Reporting**

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

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

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

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under *Government Auditing Standards*, and which is described in the accompanying schedule of audit findings as item 2018-001.

**District's Response to Finding**

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

**Purpose of this Report**

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

*Clark, Schaefer, Hackett & Co.*

Springfield, Ohio  
December 14, 2018

## Financial Statement Findings

### 2018-001: Reporting Annual Financial Statements

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

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

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

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

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

**Finding 2016-001: Reporting Annual Financial Statements**

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

*Status: Uncorrected; see current audit finding 2018-001*

**Finding 2016-002: Audit Adjustments**

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

*Status: Corrected*



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# OHIO AUDITOR OF STATE KEITH FABER



**BERNE UNION LOCAL SCHOOL DISTRICT**

**FAIRFIELD COUNTY**

### **CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
FEBRUARY 12, 2019**