



bhm cpa group, inc.
CERTIFIED PUBLIC ACCOUNTANTS

HOPEWELL-LOUDON LOCAL SCHOOL DISTRICT
SENECA COUNTY

REGULAR AUDIT

For the Year Ended June 30, 2017 and 2016
Fiscal Year Audited Under GAGAS: 2017 and 2016

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Dave Yost • Auditor of State

Board of Education
Hopewell-Loudon Local School District
181 North County Road 7, PO Box 400
Bascom, Ohio 44809

We have reviewed the *Independent Auditor's Report* of Hopewell-Loudon Local School District, Seneca County, prepared by BHM CPA Group, Inc., for the audit period July 1, 2015 through June 30, 2017. 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. Hopewell-Loudon Local School District is responsible for compliance with these laws and regulations.

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

Dave Yost
Auditor of State

April 11, 2017

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**HOPEWELL-LOUDON LOCAL SCHOOL DISTRICT
SENECA COUNTY**

Table of Contents

| <u>TITLE</u> | <u>PAGE</u> |
|---|-------------|
| Independent Auditor’s Report..... | 1 |
| Management Discussion and Analysis – For the Fiscal Year Ended June 30, 2017 | 3 |
| Basic Financial Statements: | |
| Government-Wide Financial Statements: | |
| Statement of Net Position- Cash Basis – June 30, 2017 | 15 |
| Statement of Activities-Cash Basis – For the Fiscal Year Ended June 30, 2017 | 16 |
| Fund Financial Statements: | |
| Statement of Assets and Fund Balances-Cash Basis – Governmental Funds – June 30, 2017 | 17 |
| Reconciliation of Total Governmental Fund Balances to Net Position of Governmental Activities – Cash Basis – June 30, 2017 | 18 |
| Statement of Cash Receipts, Cash Disbursements and Changes in Fund Balances Cash Basis - Governmental Funds – For the Fiscal Year Ended June 30, 2017 | 19 |
| Reconciliation of the Statement of Receipts, Disbursements, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Cash Basis – For the Fiscal Year Ended - June 30, 2017..... | 20 |
| Statement of Cash Receipts, Disbursements and Changes in Fund Balance Budget and Actual Budget Basis -General Fund – For the Fiscal Year Ended June 30, 2017 | 21 |
| Statement of Net Position - Cash Basis – Proprietary Funds - June 30, 201722 | |
| Statement of Receipts, Disbursements and Changes in Net Position Cash Basis – Proprietary Fund – For the Fiscal Year Ended June 30, 2017 | 23 |
| Statement of Fiduciary Net Position – Cash Basis Fiduciary Fund – June 30, 2017..... | 24 |
| Statement of Changes in Fiduciary Net Position – Cash Basis Fiduciary Fund – For the Fiscal Year Ended June 30, 2017..... | 24 |
| Notes to the Basic Financial Statements – For the Fiscal Year Ended June 30, 2017 | 27 |
| Management Discussion and Analysis – For the Fiscal Year Ended June 30, 2016 | 54 |
| Basic Financial Statements: | |
| Government-Wide Financial Statements: | |
| Statement of Net Position- Cash Basis – June 30, 2016..... | 64 |

| | |
|---|-----|
| Statement of Activities-Cash Basis – For the Fiscal Year Ended June 30, 2016 | 65 |
| Fund Financial Statements: | |
| Statement of Assets and Fund Balances-Cash Basis – Governmental Funds – June 30, 2016 | 66 |
| Reconciliation of Total Governmental Fund Balances to Net Position of Governmental Activities – Cash Basis – June 30, 2016 | 67 |
| Statement of Cash Receipts, Cash Disbursements and Changes in Fund Balances Cash Basis - Governmental Funds – For the Fiscal Year Ended June 30, 2016..... | 68 |
| Reconciliation of the Statement of Receipts, Disbursements, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Cash Basis – For the Fiscal Year Ended June 30, 2016..... | 69 |
| Statement of Cash Receipts, Disbursements and Changes in Fund Balance – Budget and Actual Budget Basis – General Fund – For the Fiscal Year Ended June 30, 2016 | 70 |
| Statement of Net Position - Cash Basis – Proprietary Funds – June 30, 2016 | 71 |
| Statement of Receipts, Disbursements and Changes in Net Position Cash Basis – Proprietary Fund – For the Fiscal Year Ended June 30, 2016 | 72 |
| Statement of Fiduciary Net Position – Cash Basis Fiduciary Fund – June 30, 2016 | 73 |
| Statement of Changes in Fiduciary Net Position – Cash Basis Fiduciary Fund – For the Fiscal Year Ended June 30, 2016..... | 74 |
| Notes to the Basic Financial Statements – For the Fiscal Year Ended June 30, 2016 | 76 |
| Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i> | 100 |
| Schedule of Findings | 102 |
| Schedule of Prior Audit Findings | 103 |



Independent Auditor's Report

Hopewell-Loudon Local School District
Seneca County
181 North County Road 7, PO Box 400
Bascom, Ohio 44809-0400

Members of the Board of Education:

Report on the Financial Statements

We have audited the accompanying cash basis financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Hopewell-Loudon Local School District, Seneca County, Ohio (the School District), as of and for the years ended June 30, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with 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 designing, implementing and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Hopewell-Loudon Local School District, Seneca County, Ohio, as of June 30, 2017 and 2016, and the respective changes in cash financial position and the respective budgetary comparisons for the General fund thereof for the years then ended in accordance with the accounting basis described in Note 2.

Accounting Basis

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 29, 2018, on our consideration of the School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School District's internal control over financial reporting and compliance.



BHM CPA Group Inc.
Piketon, Ohio
January 29, 2018

**HOPEWELL-LOUDON LOCAL SCHOOL DISTRICT
SENECA COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(UNAUDITED)**

The management's discussion and analysis of the Hopewell-Loudon Local School District's (the "District") financial performance provides an overall review of the District's cash basis 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 the basic financial statements and the notes to the basic financial statements to enhance their understanding of the District's financial performance.

Financial Highlights

Key financial highlights for fiscal year 2017 are as follows:

- The total net cash position of the District decreased \$694,068 or 9.11% from fiscal year 2016.
- General cash receipts accounted for \$17,618,917 in cash receipts or 86.52% of total cash receipts. Program specific cash receipts in the form of charges for services and sales and grants and contributions accounted for \$2,744,205 in cash receipts or 13.48% of total cash receipts of \$20,363,122.
- The District had \$21,057,190 in cash disbursements related to governmental activities; \$2,744,205 of these cash disbursements were offset by program specific charges for services, grants or contributions. General cash receipts supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$17,618,917 were not adequate to provide for these programs during fiscal year 2017.
- The District's major governmental funds are the general fund and the bond retirement fund. The general fund had \$9,166,445 in cash receipts and other financing sources and \$9,030,611 in cash disbursements and other financing uses. During fiscal year 2017, the general fund's fund cash balance increased \$135,834 from \$4,303,938 to \$4,439,772.
- The bond retirement fund had \$10,610,269 in cash receipts and other financing sources and \$10,888,173 in cash disbursements and other financing uses. During fiscal year 2017, the bond retirement fund's fund cash balance decreased \$277,904 from \$1,241,605 to \$963,701.

Using the Cash Basis Basic Financial Statements (BFS)

This annual report is presented in a format consistent with the presentation requirements of the Governmental Accounting Standards Board (GASB) Statement No. 34, as applicable to the District's cash basis of accounting.

The statement of net position – cash basis and statement of activities – cash basis provides information about the activities of the whole District, presenting an aggregate view of the District's cash basis finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the District's most significant funds with all other nonmajor funds presented in total in one column. In the case of the District, the general fund, the bond retirement fund, and the building fund are all reported as major funds.

**HOPEWELL-LOUDON LOCAL SCHOOL DISTRICT
SENECA COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(UNAUDITED)**

Reporting the District as a Whole

Statement of Net Position - Cash Basis and the Statement of Activities - Cash Basis

The statement of net position – cash basis and the statement of activities – cash basis answer the question, “How did the District do financially during fiscal year 2016?” These statements include only net position using the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. This basis of accounting takes into account only the current year’s receipts and disbursements if the cash is actually received or paid.

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

As a result of the use of the cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services and not collected) and liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

In the statement of net position – cash basis and statement of activities – cash basis, the governmental activities include the District’s programs and services, including instruction, support services, operation and maintenance of plant, pupil transportation, extracurricular activities, and food service operations.

The District’s statement of net position - cash basis and statement of activities - cash basis can be found on pages 15 - 16 of this report.

Reporting the District’s Most Significant Funds

Fund Financial Statements

The analysis of the District’s major governmental funds begins on page 10. 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’ most significant funds. The District’s major governmental funds are the general fund and the bond retirement fund.

**HOPEWELL-LOUDON LOCAL SCHOOL DISTRICT
SENECA COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(UNAUDITED)**

Governmental Funds

Most of the District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. The governmental fund statements provide a detailed view of the District's operations and the basic services it provides. Governmental fund information helps to determine whether there are more or fewer cash basis financial resources that can be readily spent to finance various District programs. The relationship (or differences) between governmental activities (reported in the statement of net position – cash basis and statement of activities – cash basis) and governmental funds is reconciled in the basic financial statements. The basic governmental fund financial statements can be found on pages 17-21 of this report.

Proprietary Funds

The District maintains one proprietary fund, an internal service fund. Internal service funds are an accounting device used to accumulate and allocate costs internally among the District's various functions. The District's internal service fund accounts for self-insurance programs. The basic proprietary fund financial statements can be found on pages 22 - 23 of this report.

Reporting the District's Fiduciary Responsibilities

The District is the trustee, or fiduciary, for its scholarship programs. This activity is presented as a private-purpose trust fund. The District also acts in a trustee capacity as an agent for individuals or other entities. These activities are reported in agency funds. All of the District's fiduciary activities are reported in separate statements of fiduciary net position – cash basis and changes in fiduciary net position – cash basis on pages 24 – 25. These activities are excluded from the District's other financial statements because the assets cannot be utilized by the District to finance its operations.

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. These notes to the basic financial statements can be found on pages 27 - 52 of this report.

**HOPEWELL-LOUDON LOCAL SCHOOL DISTRICT
SENECA COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(UNAUDITED)

Government-wide Financial Analysis

The table below provides a summary of the District's net cash position at June 30, 2017 and June 30, 2016.

| | Net Cash Position | |
|---------------------------------|------------------------------------|------------------------------------|
| | Governmental Activities 2016 | Governmental Activities 2015 |
| | <u>2016</u> | <u>2015</u> |
| <u>Assets</u> | | |
| Current assets | \$ 6,927,115 | \$ 7,621,183 |
| <u>Net Cash Position</u> | | |
| Restricted | 1,662,255 | 2,663,202 |
| Unrestricted | <u>5,264,860</u> | <u>4,957,981</u> |
| Total net cash position | <u>\$ 6,927,115</u> | <u>\$ 7,621,183</u> |

Over time, net cash position can serve as a useful indicator of an entity's financial position. At June 30, 2017, the total net cash position of the District was \$6,927,115. A portion of the District's net cash position, \$1,662,255, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net cash position of \$5,264,860 may be used to meet the District's ongoing obligations to the students and creditors.

The table below shows the change in net cash position for fiscal years 2017 and 2016.

| | Change in Net Cash Position | |
|--------------------------------------|------------------------------------|------------------------------------|
| | Governmental Activities 2017 | Governmental Activities 2016 |
| | <u>2017</u> | <u>2016</u> |
| <u>Cash receipts:</u> | | |
| Program cash receipts: | | |
| Charges for services and sales | \$ 2,064,854 | \$ 2,022,323 |
| Operating grants and contributions | 679,351 | 1,209,820 |
| General cash receipts: | | |
| Property taxes | 3,428,186 | 3,532,311 |
| Income taxes | 466,997 | 443,921 |
| Unrestricted grants and entitlements | 4,367,131 | 3,245,316 |
| Investment earnings | 43,751 | 23,981 |
| Miscellaneous | 93,967 | 99,501 |
| Premium on refunding bonds sold | 698,885 | - |
| Sale of refunding bonds | <u>8,520,000</u> | <u>-</u> |
| Total cash receipts | <u>20,363,122</u> | <u>10,577,173</u> |

**HOPEWELL-LOUDON LOCAL SCHOOL DISTRICT
SENECA COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(UNAUDITED)

| | Change in Net Cash Position (Continued) | |
|--|--|----------------------------|
| | Governmental Activities | Governmental Activities |
| | <u>2017</u> | <u>2016</u> |
| <u>Cash disbursements:</u> | | |
| Current: | | |
| Instruction: | | |
| Regular | \$ 4,397,871 | \$ 4,258,553 |
| Special | 1,420,107 | 1,160,520 |
| Vocational | 1,963 | 7,762 |
| Other | 9,246 | 1,757 |
| Support services: | | |
| Pupil | 383,339 | 328,807 |
| Instructional staff | 198,868 | 195,269 |
| Board of education | 22,871 | 16,362 |
| Administration | 573,105 | 502,857 |
| Fiscal | 307,202 | 297,694 |
| Operations and maintenance | 657,789 | 861,745 |
| Pupil transportation | 423,521 | 249,852 |
| Central | 25,327 | 19,538 |
| Operation of non-instructional services: | | |
| Food service operations | 322,331 | 325,315 |
| Extracurricular activities | 516,858 | 422,646 |
| Facilities acquisition and construction | 842,741 | 63,477 |
| Debt service: | | |
| Principal retirement | 390,000 | 376,000 |
| Interest and fiscal charges | 1,345,166 | 502,046 |
| Payment to refunded bond escrow agent | 8,952,894 | - |
| Bond issuance costs | <u>265,991</u> | <u>-</u> |
| Total cash disbursements | <u>21,057,190</u> | <u>9,590,200</u> |
| Change in net cash position | (694,068) | 986,973 |
| Net cash position at beginning of year | <u>7,621,183</u> | <u>6,634,210</u> |
| Net cash position at end of year | <u>\$ 6,927,115</u> | <u>\$ 7,621,183</u> |

Governmental Activities

Net cash position of the District's governmental activities decreased \$694,068. Total governmental cash disbursements of \$21,057,190 were offset by program cash receipts of \$2,744,205 and general cash receipts of \$17,618,917. Program cash receipts supported 13.03% of the total governmental cash disbursements. The largest cash disbursement category of the District is for instructional programs, which totaled \$5,829,187.

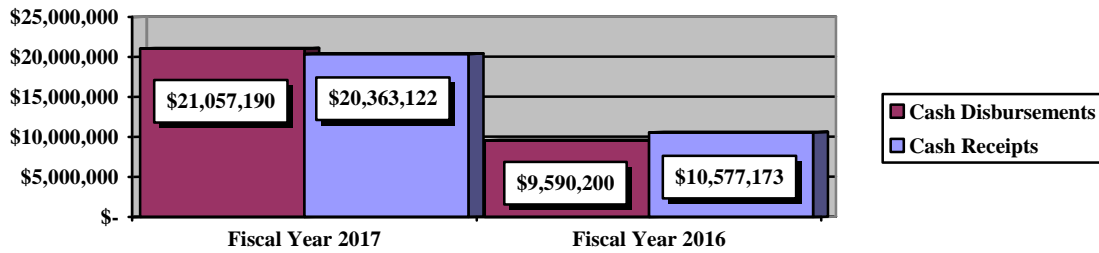
**HOPEWELL-LOUDON LOCAL SCHOOL DISTRICT
SENECA COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(UNAUDITED)**

The primary sources of cash receipts for governmental activities are derived from taxes and unrestricted grants and entitlements. These cash receipt sources represent 40.57% of total governmental cash receipts. Real estate property is reappraised every six years.

The graph below presents the District's cash receipts and cash disbursements for fiscal years 2016 and 2017.

Governmental Activities - Cash Receipts and Cash Disbursements



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**HOPEWELL-LOUDON LOCAL SCHOOL DISTRICT
SENECA COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(UNAUDITED)**

The table below presents the District's total cost of services and net cost of services for fiscal years 2017 and 2016.

| | Governmental Activities | | | |
|--|--------------------------------|-------------------------|---------------------------|-------------------------|
| | Total Cost of Services | Net Cost of Services | Total Cost of Services | Net Cost of Services |
| | <u>2017</u> | <u>2017</u> | <u>2016</u> | <u>2016</u> |
| Cash disbursements: | | | | |
| Instruction: | | | | |
| Regular | \$ 4,397,871 | \$ 3,007,921 | \$ 4,258,553 | \$ 2,682,401 |
| Special | 1,420,107 | 787,570 | 1,160,520 | 713,541 |
| Vocational | 1,963 | (2,121) | 7,762 | 6,088 |
| Other | 9,246 | 9,246 | 1,757 | 1,757 |
| Support services: | | | | |
| Pupil | 383,339 | 330,580 | 328,807 | 273,901 |
| Instructional staff | 198,868 | 195,268 | 195,269 | 191,669 |
| Board of education | 22,871 | 22,871 | 16,362 | 16,362 |
| Administration | 573,105 | 572,376 | 502,857 | 500,597 |
| Fiscal | 307,202 | 307,202 | 297,694 | 297,694 |
| Operations and maintenance | 657,789 | 654,326 | 861,745 | 850,355 |
| Pupil transportation | 423,521 | 402,223 | 249,852 | 229,692 |
| Central | 25,327 | 25,327 | 19,538 | 19,538 |
| Operation of non-instructional services: | | | | |
| Food service operations | 322,331 | 10,413 | 325,315 | (2,209) |
| Extracurricular activities | 516,858 | 192,991 | 422,646 | 183,351 |
| Facilities acquisition and construction | 842,741 | 842,741 | 63,477 | 63,477 |
| Debt service: | | | | |
| Principal retirement | 390,000 | 390,000 | 376,000 | 376,000 |
| Interest and fiscal charges | 1,345,166 | 1,345,166 | 502,046 | (46,157) |
| Payment to refunded bond escrow agent | 8,952,894 | 8,952,894 | - | - |
| Bond issuance costs | 265,991 | 265,991 | - | - |
| Total | <u>\$ 21,057,190</u> | <u>\$ 18,312,985</u> | <u>\$ 9,590,200</u> | <u>\$ 6,358,057</u> |

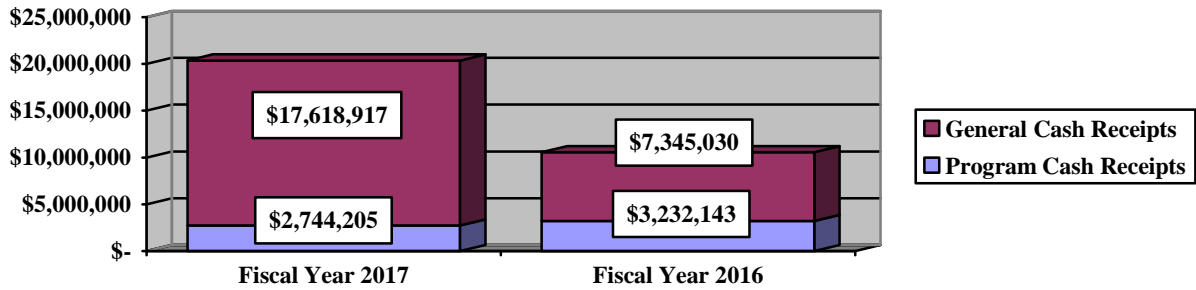
**HOPEWELL-LOUDON LOCAL SCHOOL DISTRICT
SENECA COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(UNAUDITED)**

The dependence upon taxes and other general cash receipts for governmental activities is apparent, as 86.97% of cash disbursements are supported through taxes and other general cash receipts.

The graph below presents the District's governmental activities cash receipts for fiscal years 2017 and 2016.

Governmental Activities - General and Program Cash Receipts



Financial Analysis of the Government's Funds

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

The District's governmental funds are accounted for using the cash basis of accounting.

The District's governmental funds reported a combined fund cash balance of \$6,437,929, which is less than last year's total fund cash balance of \$7,339,714. The table below indicates the fund cash balance and the total change in fund cash balance as of June 30, 2017 and June 30, 2016.

| | Fund Cash Balance <u>June 30, 2017</u> | Fund Cash Balance <u>June 30, 2016</u> | Increase/ (Decrease) | Percentage Change |
|-----------------------|--|--|-------------------------|----------------------|
| General | \$ 4,439,772 | \$ 4,303,938 | \$ 135,834 | 3.16 % |
| Bond retirement | 963,701 | 1,241,605 | (277,904) | (22.38) % |
| Nonmajor governmental | <u>1,034,456</u> | <u>1,794,171</u> | <u>(759,715)</u> | (42.34) % |
| Total | <u>\$ 6,437,929</u> | <u>\$ 7,339,714</u> | <u>\$ (901,785)</u> | (12.29) % |

**HOPEWELL-LOUDON LOCAL SCHOOL DISTRICT
SENECA COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(UNAUDITED)

General Fund

The District's general fund cash balance increased \$135,834.

The table that follows assists in illustrating the cash receipts of the general fund for fiscal years 2017 and 2016.

| | <u>2017</u> <u>Amount</u> | <u>2016</u> <u>Amount</u> | <u>Percentage</u> <u>Change</u> |
|------------------------------|------------------------------|------------------------------|------------------------------------|
| <u>Cash Receipts:</u> | | | |
| Taxes | \$ 3,423,041 | \$ 3,467,971 | (1.30) % |
| Tuition | 1,550,028 | 1,543,617 | 0.42 % |
| Earnings on investments | 42,958 | 22,622 | 89.89 % |
| Intergovernmental | 3,637,181 | 3,448,379 | 5.48 % |
| Other receipts | <u>193,229</u> | <u>173,350</u> | 11.47 % |
| Total | <u>\$ 8,846,437</u> | <u>\$ 8,655,939</u> | 2.20 % |

Overall cash receipts of the general fund increased \$190,498 or 2.20%. Taxes decreased \$44,930 or 1.30% primarily due to a decrease in property taxes received by the District during the fiscal year. Earnings on investment increased 20,336 or 89.89% due to the improvements in the economy. Intergovernmental cash receipts increased \$188,802 or 5.48%, which is primarily attributable to an increase in foundation receipts from the State of Ohio.

The table that follows assists in illustrating the cash disbursements of the general fund for fiscal years 2017 and 2016.

| | <u>2017</u> <u>Amount</u> | <u>2016</u> <u>Amount</u> | <u>Percentage</u> <u>Change</u> |
|-----------------------------------|------------------------------|------------------------------|------------------------------------|
| <u>Cash Disbursements:</u> | | | |
| Instruction | \$ 5,765,588 | \$ 5,293,173 | 8.92 % |
| Support services | 2,522,492 | 2,271,117 | 11.07 % |
| Extracurricular activities | 312,315 | 255,068 | 22.44 % |
| Debt service | <u>78,513</u> | <u>-</u> | - % |
| Total | <u>\$ 8,678,908</u> | <u>\$ 7,819,358</u> | 10.99 % |

Overall cash disbursements of the general fund increased \$859,550 or 10.99%. Extracurricular activities increased \$57,247 or 11.07% as more students participated in extracurricular activities. Increases in instruction and support services was a result of increases in salary for employees.

Bond Retirement Fund

During fiscal year 2017, the bond retirement fund's fund cash balance decreased \$277,904 from \$1,241,605 to \$963,701. The District continues to maintain a fund cash balance in the bond retirement fund that is sufficient to support current and future debt service requirements.

**HOPEWELL-LOUDON LOCAL SCHOOL DISTRICT
SENECA COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(UNAUDITED)**

Budgeting Highlights - General Fund

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

For the general fund, final budgetary basis receipts and other financing sources of \$8,717,213 were \$467,213 greater than the original budget estimates of \$8,250,000. Actual budgetary basis receipts and other financing sources of \$9,111,600 were \$394,387 greater than the final budget estimates.

The final and original budgetary basis disbursements and other financing uses were \$9,491,357 and \$8,241,657, respectively. The actual budgetary basis disbursements and other financing uses of \$9,140,965 were \$350,392 less than the final budget estimates.

Capital Assets and Debt Administration

Capital Assets

The District does not record capital assets in the accompanying cash basis basic financial statements, but records payments for capital assets as cash disbursements. The District had facilities acquisition and construction cash disbursements of \$842,741 during fiscal year 2017.

Debt Administration

At June 30, 2017, the District had \$13,832,000 in bonds outstanding. Of this total, \$399,000 is due within one year and \$13,433,000 is due in more than one year. The following table summarizes the general obligation bonds outstanding at June 30, 2017 and June 30, 2016.

| | <u>Governmental Activities 2017</u> | <u>Governmental Activities 2016</u> |
|--------------------------|---|---|
| General obligation bonds | <u>\$ 13,832,000</u> | <u>\$ 14,592,000</u> |

See Note 9 to the basic financial statements for detail on the District's debt administration.

Current Financial Related Activities

The District continues to maintain a high standard of service to its students, parents, and the community.

The District has a stable financial outlook. The Board of Education and administration closely monitor the District's receipts and disbursements in accordance with its financial forecast.

The District has communicated to its community that it relies upon its support for the majority of its operations, and will continue to work diligently to plan disbursements, staying carefully within the District's five-year financial plan. The support of the community was measured in May of 2010 when the voters approved a 5.88 mill levy, and 0.5% income tax for new facilities with the Ohio Facilities Construction Commission. The District built a new 174,000 square foot K-12 building, which opened in the fall of 2014. The last operating levy was passed in 1989. An operating levy was replaced with an emergency levy in 2005. This replacement was for \$570,000 and continues to be renewed for five-year periods. Most recently, the emergency levy was renewed on May 6, 2014. This levy is important to the District's financial condition going forward and its commitment to serving its students.

**HOPEWELL-LOUDON LOCAL SCHOOL DISTRICT
SENECA COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(UNAUDITED)**

During fiscal year 2015, the District experienced a significant increase in CAUV valuation, which resulted in a substantial increase in property tax receipts. This increase, along with the renewal of the emergency levy, has afforded the District some financial stability that will help offset funding concerns associated with the District's enrollment figures.

During fiscal year 2017, the District advance refunded \$8,890,000 of the Series 2010 bonds issued for school construction. The refunding was undertaken to reduce the combined total future debt service payments by \$1,086,739 resulting in a net present value savings of \$718,317.

All of the District's financial abilities will be needed to meet the challenges of the future. It is imperative that the Board of Education and administrative team continue to carefully and prudently plan in order to provide the resources required to meet students' needs over the next several years, operating within the means of the District's budget.

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 receives. If you have questions about this report or need additional financial information contact Ms. Jennifer Hedrick, Treasurer, Hopewell-Loudon Local School District, 290 North County Road #7, Bascom, Ohio 44809-0400.

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**HOPEWELL-LOUDON LOCAL SCHOOL DISTRICT
SENECA COUNTY, OHIO**

STATEMENT OF NET POSITION - CASH BASIS
JUNE 30, 2017

| | Governmental Activities |
|---|------------------------------------|
| Assets: | |
| Equity in pooled cash and investments | \$ 6,494,995 |
| Cash with fiscal agent | 432,120 |
| Total assets. | 6,927,115 |
| Net cash position: | |
| Restricted for: | |
| Capital projects | 50,304 |
| Classroom facilities maintenance | 332,700 |
| Debt service. | 963,701 |
| Locally funded programs | 9,953 |
| State funded programs. | 5,400 |
| Extracurricular activities | 100,695 |
| Food service operations. | 199,502 |
| Unrestricted | 5,264,860 |
| Total net cash position | \$ 6,927,115 |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**HOPEWELL-LOUDON LOCAL SCHOOL DISTRICT
SENECA COUNTY, OHIO**

STATEMENT OF ACTIVITIES - CASH BASIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

| | Cash Disbursements | Program Cash Receipts | | Net (Disbursements) Receipts and Changes in Net Cash Position Governmental Activities |
|---|-----------------------|-----------------------------------|---------------------------------------|--|
| | | Charges for Services and Sales | Operating Grants and Contributions | |
| Governmental activities: | | | | |
| Instruction: | | | | |
| Regular | \$ 4,397,871 | \$ 1,387,820 | \$ 2,130 | \$ (3,007,921) |
| Special | 1,420,107 | 169,898 | 462,639 | (787,570) |
| Vocational | 1,963 | - | 4,084 | 2,121 |
| Other | 9,246 | - | - | (9,246) |
| Support services: | | | | |
| Pupil | 383,339 | - | 52,759 | (330,580) |
| Instructional staff | 198,868 | - | 3,600 | (195,268) |
| Board of education | 22,871 | - | - | (22,871) |
| Administration | 573,105 | 729 | - | (572,376) |
| Fiscal | 307,202 | - | - | (307,202) |
| Operations and maintenance | 657,789 | 3,463 | - | (654,326) |
| Pupil transportation | 423,521 | 17,807 | 3,491 | (402,223) |
| Central | 25,327 | - | - | (25,327) |
| Operation of non-instructional services: | | | | |
| Food service operations | 322,331 | 177,835 | 134,083 | (10,413) |
| Extracurricular activities | 516,858 | 307,302 | 16,565 | (192,991) |
| Facilities acquisition and construction | 842,741 | - | - | (842,741) |
| Debt service: | | | | |
| Principal retirement | 390,000 | - | - | (390,000) |
| Interest and fiscal charges | 1,345,166 | - | - | (1,345,166) |
| Payment to refunded bond escrow agent | 8,952,894 | - | - | (8,952,894) |
| Bond issuance costs | 265,991 | - | - | (265,991) |
| Totals | \$ 21,057,190 | \$ 2,064,854 | \$ 679,351 | (18,312,985) |

General cash receipts:

| | |
|---|---------------------|
| Property taxes levied for: | |
| General purposes | 2,956,044 |
| Debt service | 472,142 |
| Income taxes levied for: | |
| General purposes | 466,997 |
| Grants and entitlements not restricted | |
| to specific programs | 4,367,131 |
| Investment earnings | 43,751 |
| Miscellaneous | 93,967 |
| Premium on refunding bonds sold | 698,885 |
| Sale of refunding bonds | 8,520,000 |
| Total general cash receipts | 17,618,917 |
| Change in net cash position | (694,068) |
| Net cash position at beginning of year | 7,621,183 |
| Net cash position at end of year | \$ 6,927,115 |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**HOPEWELL-LOUDON LOCAL SCHOOL DISTRICT
SENECA COUNTY, OHIO**

STATEMENT OF ASSETS AND FUND BALANCES - CASH BASIS
GOVERNMENTAL FUNDS
JUNE 30, 2017

| | <u>General</u> | <u>Bond Retirement</u> | <u>Nonmajor Governmental Funds</u> | <u>Total Governmental Funds</u> |
|---|---------------------|----------------------------|--|---|
| Assets: | | | | |
| Equity in pooled cash and investments | \$ 4,439,772 | \$ 963,701 | \$ 1,034,456 | \$ 6,437,929 |
| Fund cash balances: | | | | |
| Restricted: | | | | |
| Debt service | \$ - | \$ 963,701 | \$ - | \$ 963,701 |
| Capital improvements | - | - | 50,304 | 50,304 |
| Classroom facilities maintenance | - | - | 332,700 | 332,700 |
| Food service operations | - | - | 199,502 | 199,502 |
| Extracurricular activities | - | - | 100,695 | 100,695 |
| Other purposes | - | - | 15,353 | 15,353 |
| Committed: | | | | |
| Termination benefits | 290,061 | - | - | 290,061 |
| Assigned: | | | | |
| Student instruction | 33,073 | - | - | 33,073 |
| Student and staff support | 164,878 | - | - | 164,878 |
| Capital improvements | - | - | 335,902 | 335,902 |
| Other purposes | 11,195 | - | - | 11,195 |
| Unassigned | 3,940,565 | - | - | 3,940,565 |
| Total fund cash balances | <u>\$ 4,439,772</u> | <u>\$ 963,701</u> | <u>\$ 1,034,456</u> | <u>\$ 6,437,929</u> |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**HOPEWELL-LOUDON LOCAL SCHOOL DISTRICT
SENECA COUNTY, OHIO**

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET POSITION OF GOVERNMENTAL ACTIVITIES - CASH BASIS
JUNE 30, 2017

| | |
|---|----------------------------|
| Total governmental fund cash balances | \$ 6,437,929 |
| <i>Amounts reported for governmental activities on the statement of net position - cash basis are different because:</i> | |
| 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 on the statement of net position - cash basis. | <u>489,186</u> |
| Net position - cash basis of governmental activities | <u><u>\$ 6,927,115</u></u> |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**HOPEWELL-LOUDON LOCAL SCHOOL DISTRICT
SENECA COUNTY, OHIO**

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN FUND BALANCES - CASH BASIS
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

| | <u>General</u> | <u>Bond Retirement</u> | <u>Nonmajor Governmental Funds</u> | <u>Total Governmental Funds</u> |
|---|---------------------|----------------------------|--|---|
| Cash receipts: | | | | |
| From local sources: | | | | |
| Property taxes | \$ 2,956,044 | \$ 472,142 | \$ - | \$ 3,428,186 |
| Income taxes | 466,997 | - | - | 466,997 |
| Tuition | 1,550,028 | - | - | 1,550,028 |
| Earnings on investments | 42,958 | - | - | 42,958 |
| Charges for services | - | - | 177,835 | 177,835 |
| Extracurricular | 32,970 | - | 251,594 | 284,564 |
| Classroom materials and fees | 49,114 | - | - | 49,114 |
| Rental income | 3,313 | - | - | 3,313 |
| Contributions and donations | 16,565 | - | 2,700 | 19,265 |
| Other local receipts | 91,267 | - | 2,130 | 93,397 |
| Intergovernmental - state | 3,637,181 | 61,377 | 28,462 | 3,727,020 |
| Intergovernmental - federal | - | 936,378 | 364,389 | 1,300,767 |
| Total cash receipts | <u>8,846,437</u> | <u>1,469,897</u> | <u>827,110</u> | <u>11,143,444</u> |
| Cash disbursements: | | | | |
| Current: | | | | |
| Instruction: | | | | |
| Regular | 4,519,513 | - | 5,440 | 4,524,953 |
| Special | 1,234,434 | - | 210,278 | 1,444,712 |
| Vocational | 1,963 | - | - | 1,963 |
| Other | 9,678 | - | - | 9,678 |
| Support services: | | | | |
| Pupil | 335,202 | - | 55,000 | 390,202 |
| Instructional staff | 204,358 | - | - | 204,358 |
| Board of education | 22,871 | - | - | 22,871 |
| Administration | 593,790 | - | 640 | 594,430 |
| Fiscal | 302,272 | 12,635 | - | 314,907 |
| Operations and maintenance | 630,505 | - | 34,504 | 665,009 |
| Pupil transportation | 408,167 | - | 15,638 | 423,805 |
| Central | 25,327 | - | - | 25,327 |
| Operation of non-instructional services: | | | | |
| Food service operations | - | - | 328,249 | 328,249 |
| Extracurricular activities | 312,315 | - | 204,543 | 516,858 |
| Facilities acquisition and construction | - | - | 842,741 | 842,741 |
| Debt service: | | | | |
| Principal retirement | - | 390,000 | - | 390,000 |
| Interest and fiscal charges | - | 1,345,166 | - | 1,345,166 |
| Bond issuance costs | 78,513 | 187,478 | - | 265,991 |
| Total cash disbursements | <u>8,678,908</u> | <u>1,935,279</u> | <u>1,697,033</u> | <u>12,311,220</u> |
| Excess (deficiency) of cash receipts over (under) cash disbursements | <u>167,529</u> | <u>(465,382)</u> | <u>(869,923)</u> | <u>(1,167,776)</u> |
| Other financing sources (uses): | | | | |
| Premium on refunding bonds sold | - | 698,885 | - | 698,885 |
| Sale of refunding bonds | 78,513 | 8,441,487 | - | 8,520,000 |
| Payment to refunded bond escrow agent | - | (8,952,894) | - | (8,952,894) |
| Transfers in | - | - | 150,132 | 150,132 |
| Transfers (out) | (150,132) | - | - | (150,132) |
| Advances in | 241,495 | - | 201,571 | 443,067 |
| Advances (out) | (201,571) | - | (241,495) | (443,067) |
| Total other financing sources (uses) | <u>(31,695)</u> | <u>187,478</u> | <u>110,208</u> | <u>265,991</u> |
| Net change in fund cash balances | 135,834 | (277,904) | (759,715) | (901,785) |
| Fund cash balances at beginning of year | <u>4,303,938</u> | <u>1,241,605</u> | <u>1,794,171</u> | <u>7,339,714</u> |
| Fund cash balances at end of year | <u>\$ 4,439,772</u> | <u>\$ 963,701</u> | <u>\$ 1,034,456</u> | <u>\$ 6,437,929</u> |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**HOPEWELL-LOUDON LOCAL SCHOOL DISTRICT
SENECA COUNTY, OHIO**

RECONCILIATION OF THE STATEMENT OF RECEIPTS, DISBURSEMENTS
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES - CASH BASIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

| | |
|--|--------------|
| Net change in fund balances - cash basis - total governmental funds | \$ (901,785) |
|--|--------------|

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

An internal service fund for self-insurance is not reported in the district-wide statement of activities - cash basis. Governmental fund cash disbursements and the related internal service fund cash receipts are eliminated. The net cash receipts (cash disbursements) of the internal service fund are allocated among the governmental activities.

207,717

| | |
|---|---------------------|
| Change in net cash position of governmental activities | <u>\$ (694,068)</u> |
|---|---------------------|

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**HOPEWELL-LOUDON LOCAL SCHOOL DISTRICT
SENECA COUNTY, OHIO**

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGE IN FUND BALANCE
BUDGET AND ACTUAL - BUDGET BASIS
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

| | <u>Budgeted Amounts</u> | | <u>Actual</u> | <u>Variance with Final Budget Positive (Negative)</u> |
|--|----------------------------|----------------------------|----------------------------|---|
| | <u>Original</u> | <u>Final</u> | | |
| Budgetary basis receipts: | | | | |
| From local sources: | | | | |
| Property taxes | \$ 2,749,389 | \$ 3,019,000 | \$ 2,956,044 | \$ (62,956) |
| Income taxes. | 434,349 | 500,000 | 466,997 | (33,003) |
| Tuition. | 1,441,666 | 1,583,000 | 1,550,028 | (32,972) |
| Earnings on investments | 39,955 | 23,000 | 42,958 | 19,958 |
| Classroom materials and fees | 41,110 | 74,700 | 44,200 | (30,500) |
| Rental income | 3,081 | 2,000 | 3,313 | 1,313 |
| Other local receipts | 84,517 | 85,000 | 90,870 | 5,870 |
| Intergovernmental - state | 3,382,909 | 3,352,000 | 3,637,182 | 285,182 |
| Total budgetary basis receipts. | <u>8,176,976</u> | <u>8,638,700</u> | <u>8,791,592</u> | <u>152,892</u> |
| Budgetary basis disbursements: | | | | |
| Current: | | | | |
| Instruction: | | | | |
| Regular | 4,263,090 | 4,701,342 | 4,546,345 | 154,997 |
| Special. | 1,159,412 | 1,238,314 | 1,236,447 | 1,867 |
| Vocational. | 1,841 | 32,307 | 1,963 | 30,344 |
| Other. | 9,075 | 9,678 | 9,678 | - |
| Support services: | | | | |
| Pupil. | 328,383 | 350,609 | 350,202 | 407 |
| Instructional staff | 196,730 | 213,487 | 209,801 | 3,686 |
| Board of education | 23,321 | 107,399 | 24,871 | 82,528 |
| Administration. | 557,052 | 595,872 | 594,065 | 1,807 |
| Fiscal | 287,549 | 308,143 | 306,655 | 1,488 |
| Operations and maintenance. | 648,179 | 694,234 | 691,246 | 2,988 |
| Pupil transportation | 416,341 | 444,154 | 444,004 | 150 |
| Central. | 23,749 | 25,457 | 25,327 | 130 |
| Extracurricular activities. | 253,314 | 270,145 | 270,145 | - |
| Debt service: | | | | |
| Bond issuance costs | 73,621 | 148,513 | 78,513 | 70,000 |
| Total budgetary basis disbursements. | <u>8,241,657</u> | <u>9,139,654</u> | <u>8,789,262</u> | <u>350,392</u> |
| Excess (deficiency) of budgetary basis receipts over (under) budgetary basis disbursements. | <u>(64,681)</u> | <u>(500,954)</u> | <u>2,330</u> | <u>503,284</u> |
| Other financing sources (uses): | | | | |
| Transfers (out). | - | (150,132) | (150,132) | - |
| Advances in. | - | - | 241,495 | 241,495 |
| Advances (out) | - | (201,571) | (201,571) | - |
| Sale of refunding bonds. | 73,024 | 78,513 | 78,513 | - |
| Total other financing sources (uses) | <u>73,024</u> | <u>(273,190)</u> | <u>(31,695)</u> | <u>241,495</u> |
| Net change in fund cash balance | 8,343 | (774,144) | (29,365) | 744,779 |
| Fund cash balance at beginning of year | 3,728,573 | 3,728,573 | 3,728,573 | - |
| Prior year encumbrances appropriated | 241,357 | 241,357 | 241,357 | - |
| Fund cash balance at end of year | <u>\$ 3,978,273</u> | <u>\$ 3,195,786</u> | <u>\$ 3,940,565</u> | <u>\$ 744,779</u> |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**HOPEWELL-LOUDON LOCAL SCHOOL DISTRICT
SENECA COUNTY, OHIO**

STATEMENT OF NET POSITION - CASH BASIS
PROPRIETARY FUND
JUNE 30, 2017

| | Governmental Activities - Internal Service Fund |
|---|--|
| Assets: | |
| Equity in pooled cash and investments . . . | \$ 57,066 |
| Cash with fiscal agent | <u>432,120</u> |
| Total assets. | <u>489,186</u> |
| Net cash position: | |
| Unrestricted. | <u>489,186</u> |
| Total net cash position | <u><u>\$ 489,186</u></u> |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**HOPEWELL-LOUDON LOCAL SCHOOL DISTRICT
SENECA COUNTY, OHIO**

STATEMENT OF RECEIPTS, DISBURSEMENTS AND
CHANGES IN NET POSITION - CASH BASIS
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

| | <u>Governmental Activities - Internal Service Fund</u> |
|--|---|
| Operating cash receipts: | |
| Charges for services | \$ 1,276,288 |
| Operating cash disbursements: | |
| Purchased services. | 328,949 |
| Claims | 740,415 |
| Total operating cash disbursements | <u>1,069,364</u> |
| Operating income. | 206,924 |
| Nonoperating cash receipts: | |
| Earnings on investments | <u>793</u> |
| Change in net cash position | 207,717 |
| Net cash position at beginning of year. | <u>281,469</u> |
| Net cash position at end of year | <u><u>\$ 489,186</u></u> |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**HOPEWELL-LOUDON LOCAL SCHOOL DISTRICT
SENECA COUNTY, OHIO**

STATEMENT OF FIDUCIARY NET POSITION - CASH BASIS
FIDUCIARY FUNDS
JUNE 30, 2017

| | Private-Purpose Trust | |
|---|----------------------------------|---------------|
| | Scholarship | Agency |
| Assets: | | |
| Equity in pooled cash and investments | \$ 29,216 | \$ 100,883 |
| Net cash position: | | |
| Due to students | \$ - | \$ 88,978 |
| Due to others | - | 11,905 |
| Held in trust for scholarships | 29,216 | - |
| Total net cash position | \$ 29,216 | \$ 100,883 |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**HOPEWELL-LOUDON LOCAL SCHOOL DISTRICT
SENECA COUNTY, OHIO**

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION - CASH BASIS
FIDUCIARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

| | Private-Purpose Trust |
|--|----------------------------------|
| | Scholarship |
| Additions: | |
| Gifts and contributions. | \$ 3,898 |
| Deductions: | |
| Scholarships awarded | 2,845 |
| Change in net cash position. | 1,053 |
| Net cash position at beginning of year. . . | 28,163 |
| Net cash position at end of year | \$ 29,216 |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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**HOPEWELL-LOUDON LOCAL SCHOOL DISTRICT
SENECA COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

NOTE 1 - THE REPORTING ENTITY

The Hopewell-Loudon Local School District (the "District"), Seneca County, is a local school district as defined by Section 3311.03 of the Ohio Revised Code. The District operates under an elected Board of Education and is responsible for providing public education to the residents of the District.

The District operates one instructional facility and provides educational services to students from grades K-12. The District is staffed by 26 non-certified employees, 51 certified employees, and 5 administrators who provide services to 854 students.

The District's management believes these basic financial statements present all activities for which the District is accountable.

A. Primary Government

The primary government of the District consists of all funds, departments, boards, and agencies that are not legally separate from the District. For the District, this includes general operations, food service, and student related activities of the District.

B. Component Units

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; or (3) the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or (4) 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. Certain organizations are also included as component units if the nature and significance of the relationship between the primary government and the organization is such that exclusion by the primary government would render the primary government's financial statements incomplete or misleading. Based upon the application of these criteria, the District has no component units.

C. Other Organizations

The basic financial statements of the reporting entity include only those of the District (the primary government). The following organizations are described due to their relationship to the District:

JOINTLY GOVERNED ORGANIZATION

Northern Ohio Educational Computer Association (NOECA)

The District is a participant in NOECA, which is a computer consortium. NOECA is an association of forty-one public school districts formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. The NOECA Board of Directors consists of two representatives from each county in which participating school districts are located, the chairman of each of the operating committees, and a representative from the fiscal agent. Financial information can be obtained from Matt Bauer, who serves as Controller, at 1210 East Bogart Road, Sandusky, Ohio 44870.

**HOPEWELL-LOUDON LOCAL SCHOOL DISTRICT
SENECA COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

NOTE 1 - THE REPORTING ENTITY - (Continued)

PUBLIC ENTITY RISK POOL

Ohio School Boards Association Workers' Compensation Group Rating Program

The District participates in a group rating program for workers' compensation as established in Section 4123.29 of the Ohio Revised Code. The Ohio School Boards Association (OSBA) Workers' Compensation Group Rating Program (GRP) was established as an insurance purchasing pool. The GRP is governed by a three-member Board of Directors. The Executive Director of the OSBA, or his designee, serves as the 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 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

As discussed in Note 2.A, 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, which have been applied to the extent they are applicable to the cash basis of accounting. 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. Following are the more significant of the District's accounting policies.

A. Basis of Accounting

Although required by Ohio Administrative Code § 117-2-03(B) to prepare its annual financial report in accordance with GAAP, the District chooses to prepare its financial statements and notes on 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.

As a result of the use of the cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in this financial statement.

Budgetary presentations report budgetary cash disbursements when a commitment is made (i.e. when an encumbrance is approved). The difference between disbursements reported in the fund and government-wide statements and disbursements reported in the budgetary statements is due to current year encumbrances being added to disbursements reported in the budgetary statements.

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

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 a self balancing set of accounts. There are three categories of funds: governmental, proprietary, and fiduciary.

**HOPEWELL-LOUDON LOCAL SCHOOL DISTRICT
SENECA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

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

GOVERNMENTAL FUNDS

Governmental funds are those through which most governmental functions typically are financed. The following are the District's major governmental funds:

General fund - The general fund is used to account for and report all financial resources not accounted for and reported in another fund. The general fund cash balance is available for any purpose provided it is disbursed or transferred according to the general laws of Ohio.

Bond retirement fund - The bond retirement fund is used to account for the accumulation of resources restricted for the payment of general obligation bond and note principal, interest, and related costs.

Other governmental funds of the District are used to account for (a) financial resources that are restricted, committed, or assigned to disbursements for capital outlays including the acquisition or construction of capital facilities and other capital assets and (b) specific receipt sources that are restricted or committed to a disbursement for specified purposes other than debt service or capital projects.

PROPRIETARY FUND

Proprietary funds are used to account for the District's ongoing activities which are similar to those often found in the private sector. The District has no enterprise funds. The following is a description of the District's internal service fund:

Internal service fund - The internal service fund is used to account for the financing of goods or 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 medical, dental, life, and vision benefits to employees.

FIDUCIARY FUNDS

Fiduciary fund reporting focuses on net cash position and changes in net cash position. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to account for cash 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 and do not involve measurement of results of operations. The District's only trust fund is a private-purpose trust fund that accounts for scholarship programs. The District's agency fund activity is reported in a single column on the basic financial statements.

C. Basis of Presentation

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 operating activity is eliminated to avoid overstatement of receipts and disbursements.

**HOPEWELL-LOUDON LOCAL SCHOOL DISTRICT
SENECA COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

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

The government-wide statement of activities compares disbursements with program receipts for each function or program of the District's governmental activities. These disbursements are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program receipts include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Receipts which are not classified as program receipts are presented as general receipts of the District. The comparison of direct disbursements with program receipts identifies the extent to which each governmental function is self-financing on the cash basis or draws from the general receipts of the District.

All assets and net cash position associated with the operation of the District are included on the statement of net position.

Fund Financial Statements - Fund financial statements report detailed information about the District. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column, and all nonmajor funds are aggregated into one column. The internal service fund is presented in a single column on the face of the proprietary fund statements. Fiduciary funds are reported by fund type.

D. Budgetary Process

All funds, except agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriations resolution, all of 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 amount the Board of Education may appropriate. The appropriations resolution is the Board's authorization to spend resources and sets annual limits on cash disbursements plus encumbrances at the level of control selected by the Board. The legal level of budgetary control selected by the Board is at the fund level. Any budgetary modifications at this level may only be made by the Board of Education.

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

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

E. Cash and Investments

To improve cash management, cash received by the District is pooled in a central bank account. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through the District's records. Each fund's interest in the pool is presented as "equity in pooled cash and investments" on the basic financial statements.

**HOPEWELL-LOUDON LOCAL SCHOOL DISTRICT
SENECA COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

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

During fiscal year 2017, investments were limited to investments in the State Treasury Asset Reserve of Ohio (STAR Ohio), nonnegotiable certificates of deposit, and negotiable certificates of deposit. In accordance with the cash basis of accounting, all District investments are reported at cost, except for STAR Ohio.

During fiscal year 2017, the District invested in STAR Ohio. STAR Ohio (the State Treasury Asset Reserve of Ohio), is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but has adopted Governmental Accounting Standards Board (GASB), Statement No. 79, "Certain External Investment Pools and Pool Participants." The District measures its investment in STAR Ohio at the net asset value (NAV) per share provided by STAR Ohio. The NAV per share is calculated on an amortized cost basis that provides an NAV per share that approximates fair value.

For fiscal year 2017, there were no limitations or restrictions on any participant withdrawals due to redemption notice periods, liquidity fees, or redemption gates. However, notice must be given 24 hours in advance of all deposits and withdrawals exceeding \$25 million. STAR Ohio reserves the right to limit the transaction to \$50 million, requiring the excess amount to be transacted the following business day(s), but only to the \$50 million limit. All accounts of the participant will be combined for these purposes.

Under existing Ohio statutes, all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund. By policy of the Board of Education, investment earnings are assigned to the fund from which the investment was made. Interest receipts credited to the general fund during fiscal year 2017 amounted to \$42,958, which includes \$11,766 assigned from other funds.

For presentation on the basic financial statements, 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 considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

An analysis of the District's investment account at fiscal year-end is provided in Note 5.

F. Inventory and Prepaid Items

The District reports cash disbursements for inventory and prepaid items when paid. These items are not reflected as assets in the accompanying financial statements.

G. Capital Assets

Acquisition of property, plant, and equipment purchased are recorded as cash disbursements when paid. These items are not reflected as assets in the accompanying financial statements under the cash basis of accounting. Depreciation has not been reported for any capital assets.

H. Accumulated Leave

Employees are entitled to cash payments for unused vacation leave and sick leave in certain circumstances, such as upon leaving employment. Unpaid vacation leave and sick leave are not reflected as liabilities under the cash basis of accounting.

**HOPEWELL-LOUDON LOCAL SCHOOL DISTRICT
SENECA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

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

I. Pensions

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

J. Employer Contributions to Cost-Sharing Pension Plans

The District recognizes the cash disbursements for employer contributions to cost-sharing pension plans when they are paid. As described in Notes 11 and 12, the employer contributions include portions for pension benefits and for postemployment healthcare.

K. Long-Term Obligations

Bonds, loans, capital leases, and other long-term obligations are not recognized as liabilities in the financial statements under the cash basis of accounting. These statements report proceeds of debt when cash is received, and debt service disbursements for principal and interest payments, bond issuance costs, and payments to refunded bond escrow agent.

L. Fund Cash Balance

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

Nonspendable - The nonspendable fund cash balance classification includes amounts that cannot be spent because they are not in spendable form or legally required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash.

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

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

Assigned - Amounts in the assigned fund cash balance classification are intended to be used by the District for specific purposes, but do not meet the criteria to be classified as restricted nor committed. In governmental funds other than the general fund, assigned fund cash balance represents the remaining amount that is not restricted or committed. In the general fund, assigned amounts represent intended uses established by policies of the District Board of Education, which includes giving the Treasurer the authority to constrain monies for intended purposes.

**HOPEWELL-LOUDON LOCAL SCHOOL DISTRICT
SENECA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

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

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

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

M. Net Cash Position

Net cash position is reported as restricted when there are limitations imposed on its use either through 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 incurred for purposes for which both restricted and unrestricted net cash position is available.

N. Interfund Balances

On the fund financial statements, the District reports advances in and advances out for interfund loans. These items are not reflected as assets and liabilities in the accompanying fund financial statements under the cash basis of accounting. Advances are eliminated in the statement of activities.

O. Interfund Activity

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 fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating receipts/disbursements in the proprietary funds. Repayments from funds responsible for particular disbursements to the funds that initially paid for them are not presented on the basic financial statements. Interfund transfers between governmental funds are eliminated in the statement of activities.

P. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. The District did not have any extraordinary or special items during fiscal year 2017.

**HOPEWELL-LOUDON LOCAL SCHOOL DISTRICT
SENECA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principles

For fiscal year 2017, the District has, to the extent it applies to the cash basis of accounting, implemented 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 - An Amendment of GASB Statement No. 14*” and GASB Statement No. 82, “*Pension Issues - An Amendment of GASB Statements No. 67, No. 68 and No. 73*”.

GASB Statement No. 77 requires governments that enter into tax abatement agreements to disclose certain information about the agreement. GASB Statement No. 77 also requires disclosures related to tax abatement agreements that have been entered into by other governments that reduce the reporting government’s tax revenues. The District did not have any material tax abatement disclosures required under GASB Statement No. 77 and there was no effect on beginning net position/fund balance as a result of implementing GASB Statement No. 77.

GASB Statement No. 78 establishes accounting and financial reporting standards for defined benefit pensions provided to the employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan (cost-sharing pension plan) that meets the criteria in paragraph 4 of Statement 68 and that (a) is not a state or local governmental pension plan, (b) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and (c) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan). The implementation of GASB Statement No. 78 did not have an effect on the financial statements of the District.

GASB Statement No. 80 improves the financial reporting by clarifying the financial statement presentation requirements for certain component units. This Statement applies to component units that are organized as not-for-profit corporations in which the primary government is the sole corporate member. The implementation of GASB Statement No. 80 did not have an effect on the financial statements of the District.

GASB Statement No. 82 addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The implementation of GASB Statement No. 82 did not have an effect on the financial statements 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 generally accepted accounting principles. 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, deferred outflows of resources, liabilities, deferred inflows of resources, 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.

**HOPEWELL-LOUDON LOCAL SCHOOL DISTRICT
SENECA COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

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 a basis of cash receipts, disbursements, and encumbrances. The statement of cash receipts, disbursements and change in fund balance - budget and actual - budget basis presented for the general fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The difference between the budget basis and the cash basis is outstanding year end encumbrances are treated as disbursements (budget) rather than a reservation of fund cash balance (cash).

The adjustments necessary to convert the results of operations for the year on the budget basis to the cash basis for the general fund is as follows:

Net Change in Fund Cash Balance

| | <u>General fund</u> |
|-----------------------------|---------------------|
| Budget basis | \$ (29,365) |
| Funds budgeted elsewhere | 8,448 |
| Adjustment for encumbrances | <u>156,751</u> |
| Cash basis | <u>\$ 135,834</u> |

Certain funds that are legally budgeted in separate fund classifications are considered part of the general fund on a cash basis. This includes the uniform school supplies fund, the public school fund, and the termination benefits fund.

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

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

Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts including passbook accounts.

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;

**HOPEWELL-LOUDON LOCAL SCHOOL DISTRICT
SENECA COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

NOTE 5 - DEPOSITS AND INVESTMENTS - (Continued)

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 market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio, or legal governments;
5. No-load money market mutual funds consisting exclusively of obligations described in items (1) and (2) above 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 (STAR Ohio);
7. Certain banker's acceptance and commercial paper notes for a period not to exceed one hundred eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest 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, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

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.

A. Cash on Hand

At June 30, 2017, the District had \$50,000 in undeposited cash on hand, which is included on the financial statements of the District as part of "equity in pooled cash and cash equivalents".

B. Cash with Fiscal Agent

The District is self-insured through a fiscal agent. The money held by the fiscal agent cannot be identified as an investment or deposit, since it is held in a pool made up of numerous participants. The amount held by the fiscal agent at June 30, 2017 was \$432,120.

**HOPEWELL-LOUDON LOCAL SCHOOL DISTRICT
SENECA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 5 - DEPOSITS AND INVESTMENTS - (Continued)

C. Deposits with Financial Institutions

At June 30, 2017, the carrying amount of all District deposits was \$779,981. Based on the criteria described in GASB Statement No. 40, “Deposits and Investment Risk Disclosures”, as of June 30, 2017, \$432,608 of the District’s bank balance of \$882,608 was exposed to custodial credit risk as discussed below, while \$450,000 was covered by the FDIC.

Custodial credit risk is the risk that, in the event of bank failure, the District’s deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. 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. The District has no deposit policy for custodial credit risk beyond the requirements of State statute. Although the securities were held by the pledging institutions’ trust department and 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 FDIC.

D. Investments

As of June 30, 2017, the District had the following investments and maturities:

| <u>Investment Type</u> | <u>Carrying Value</u> | <u>Maturity 6 Months or Less</u> |
|------------------------|-----------------------|--|
| Negotiable CD's | \$ 400,000 | \$ 400,000 |
| STAR Ohio | <u>5,395,113</u> | <u>5,395,113</u> |
| Total | <u>\$ 5,795,113</u> | <u>\$ 5,795,113</u> |

The weighted average maturity of investments is 0.02 years.

Interest Rate Risk: Interest rate risk arises when potential purchasers of debt securities will not agree to pay face value for those securities if interest rates subsequently increase. As a means of limiting its exposure to fair value losses arising from rising interest rates and according to State law, the District’s investment policy limits investment portfolio maturities to five years or less.

Credit Risk: STAR Ohio carries a rating of AAAM by Standard & Poor’s. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service. The negotiable CD’s are fully covered by the FDIC. The District’s investment policy does not address credit risk beyond the requirements of State statutes.

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

**HOPEWELL-LOUDON LOCAL SCHOOL DISTRICT
SENECA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 5 - DEPOSITS AND INVESTMENTS - (Continued)

Concentration of Credit Risk: The District places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the District at June 30, 2017:

| <u>Investment Type</u> | <u>Carrying Value</u> | <u>% to Total</u> |
|------------------------|-----------------------|-------------------|
| Negotiable CD's | \$ 400,000 | 6.90 |
| STAR Ohio | <u>5,395,113</u> | <u>93.10</u> |
| Total | <u>\$ 5,795,113</u> | <u>100.00</u> |

E. Reconciliation of Cash and Investments to the Statement of Net Position

The following is a reconciliation of cash and investments as reported in the note disclosure above to cash and investments as reported on the statement of net position as of June 30, 2017:

| <u>Cash and investments per note disclosure</u> | |
|---|---------------------|
| Carrying amount of deposits | \$ 779,981 |
| Cash on hand | 50,000 |
| Cash with fiscal agent | 432,120 |
| Investments | <u>5,795,113</u> |
| Total | <u>\$ 7,057,214</u> |
| <u>Cash and investments per statement of net position</u> | |
| Governmental activities | \$ 6,927,115 |
| Private-purpose trust fund | 29,216 |
| Agency fund | <u>100,883</u> |
| Total | <u>\$ 7,057,214</u> |

NOTE 6 - INTERFUND TRANSACTIONS

- A.** Advances in and advances out during fiscal year 2017 consisted of the following, as reported on the fund financial statements:

| <u>Advances In</u> | <u>Advances Out</u> | <u>Amount</u> |
|-----------------------------|-----------------------------|-------------------|
| Nonmajor governmental funds | General fund | \$ 201,572 |
| General fund | Nonmajor governmental funds | <u>241,495</u> |
| Total | | <u>\$ 443,067</u> |

The primary purpose of the advances is to cover costs in specific funds where cash receipts were not received by June 30. Advances are repaid once the anticipated cash receipts are received.

Advances between governmental funds are eliminated on the government-wide financial statements; therefore, no advances are reported in the statement of activities.

**HOPEWELL-LOUDON LOCAL SCHOOL DISTRICT
SENECA COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

NOTE 6 - INTERFUND TRANSACTIONS - (Continued)

- B.** Interfund transfers during fiscal year 2017 consisted of the following, as reported on the fund financial statements:

| <u>Transfers from general fund to:</u> | <u>Amount</u> |
|--|-------------------|
| Nonmajor governmental funds | <u>\$ 150,132</u> |

Transfers are used to (1) move cash receipts from the fund that statute or budget requires to collect them to the fund that statute or budget requires to disburse them, and (2) to use unrestricted cash receipts collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

Interfund transfers between governmental funds are eliminated on the government-wide financial statements; therefore, no transfers are reported in the statement of activities.

NOTE 7 - 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 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 property and public utility property. Real property tax receipts received in calendar year 2017 represent the collection of calendar year 2016 taxes. Real property taxes received in calendar year 2017 were levied after April 1, 2016, on the assessed values as of January 1, 2016, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, 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 receipts received in calendar year 2017 represent the collection of calendar year 2016 taxes. Public utility real and personal property taxes received in calendar year 2017 became a lien on December 31, 2015, were levied after April 1, 2016, and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

The District receives property taxes from Seneca County. The County Auditor periodically advances to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2017, are available to finance fiscal year 2017 operations. The amount of second-half real property taxes available for advance at fiscal year-end can vary based on the date the tax bills are sent.

**HOPEWELL-LOUDON LOCAL SCHOOL DISTRICT
SENECA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 7 - PROPERTY TAXES - (Continued)

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

| | 2016 Second Half Collections | | 2017 First Half Collections | |
|---|---------------------------------|----------------|--------------------------------|----------------|
| | <u>Amount</u> | <u>Percent</u> | <u>Amount</u> | <u>Percent</u> |
| Agricultural/residential and other real estate | \$ 127,685,040 | 95.99 | \$ 129,418,910 | 95.92 |
| Public utility personal | <u>5,339,630</u> | <u>4.01</u> | <u>5,499,410</u> | <u>4.08</u> |
| Total | <u>\$ 133,024,670</u> | <u>100.00</u> | <u>\$ 134,918,320</u> | <u>100.00</u> |
| Tax rate per \$1,000 of assessed valuation | \$40.79 | | \$43.12 | |

NOTE 8 - SCHOOL DISTRICT INCOME TAX

The District levies a voted tax of one half of one percent (0.50%) for general operations on the income of residents and of estates. Employers of residents are required to withhold income tax on compensation 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 are credited to the general fund. Total income tax cash receipts for fiscal year 2017 equaled \$466,997.

NOTE 9 - LONG-TERM OBLIGATIONS

A. During fiscal year 2017, the following activity occurred in governmental activities long-term obligations:

| | Balance Outstanding July 1, 2016 | Additions | Reductions | Balance Outstanding June 30, 2017 | Amounts Due in One Year |
|---|--|---------------------|-----------------------|---|-------------------------------|
| Governmental Activities: | | | | | |
| Series 2010 OSFC Bonds | \$ 5,170,000 | \$ - | \$ (4,410,000) | \$ 760,000 | \$ 60,000 |
| Series 2010 Qualified School Construction Bonds | 9,422,000 | - | (4,870,000) | 4,552,000 | 339,000 |
| Series 2016 Refunding OSFC Bonds | - | 4,085,000 | - | 4,085,000 | - |
| Series 2016 Refunding Qualified School Construction Bonds | <u>-</u> | <u>4,435,000</u> | <u>-</u> | <u>4,435,000</u> | <u>-</u> |
| Total Long-term Obligations, Governmental Activities | <u>\$ 14,592,000</u> | <u>\$ 8,520,000</u> | <u>\$ (9,280,000)</u> | <u>\$ 13,832,000</u> | <u>\$ 399,000</u> |

**HOPEWELL-LOUDON LOCAL SCHOOL DISTRICT
SENECA COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

NOTE 9 - LONG-TERM OBLIGATIONS - (Continued)

Series 2010 Ohio School Facilities Construction Bonds - Tax Exempt and Build America Bonds (TEB and BAB): On September 14, 2010, the District issued \$1,005,000 in Series 2010A Tax Exempt Bonds and \$4,355,000 in Series 2010B Build America Bonds for the purpose of constructing new classroom facilities. Semi-annual interest payments are due at an average interest rate of 5.53% per annum, and varying principal payments are due annually on November 1, with a final maturity date of November 1, 2039. The federal government will subsidize 35% of the debt service of the Build America Bonds. No assets were pledged to secure these bonds. During fiscal year 2017, the District made a principal payment of \$55,000 and refunded \$4,355,000 of these bonds through the issuance of the Series 2016 refunding bonds described below.

Series 2010 Qualified School Construction Bonds (QSCB): On August 26, 2010, the District issued \$6,300,000 of School Facilities Construction and Improvement Bonds, Series 2010A, and on September 14, 2010, issued \$4,675,000 of School Facilities Construction and Improvement Bonds, Series 2010B and 2010C. Both issuances were for the purpose of constructing new classroom facilities. Quarterly interest payments are due at an average interest rate of 5.62% per annum through November 1, 2027, at which time they become semi-annual, and varying principal payments are due annually with a final maturity date of November 1, 2047. The federal government will subsidize approximately 32% of the debt service of these bonds. No assets were pledged to secure these bonds. During fiscal year 2017, the District made a principal payment of \$335,000 and refunded \$4,535,000 of these bonds through the issuance of the Series 2016 refunding bonds described below.

Series 2016 Refunding Ohio School Facilities Construction Bonds – Build America Bonds (BAB): On October 12, 2016, the District issued \$4,085,000 in Series 2016 BAB Refunding Bonds for the refunding of the Series 2010B Build America Bonds. The refunding bonds were issued at a premium of \$457,282. The District incurred \$156,342 in issuance costs and made a payment to the refunded bond escrow agent in the amount of \$4,385,940. The Series 2010B Build America Bonds are considered in-substance defeased as a result of the refunding. The refunding was undertaken to reduce the combined total future debt service payments by \$478,647 resulting in a net present value savings of \$334,851. These Series 2016 BAB Refunding Bonds have a final maturity of November 1, 2039 and bears an interest rate of 4.00%. Interest payments on the 2016 BAB Refunding Bonds are due May 1 and November 1 of each year. Payments of principal and interest are recorded as cash disbursements of the bond retirement fund.

Series 2016 Refunding Qualified School Construction Bonds (QSCB): On October 12, 2016, the District issued \$4,435,000 in Series 2016 QSCB Refunding Bonds for the refunding of the Series 2010B and 2010C School Facilities Construction and Improvement Bonds. The refunding bonds were issued at a premium of \$241,603. The District incurred \$109,649 in issuance costs and made a payment to the refunded bond escrow agent in the amount of \$4,566,954. The Series 2010B and 2010C School Facilities Construction and Improvement Bonds are considered in-substance defeased as a result of the refunding. The refunding was undertaken to reduce the combined total future debt service payments by \$599,092 resulting in a net present value savings of \$383,466. The Series 2016 QSCB Refunding Bonds have a final maturity of November 1, 2047 and bear interest rates ranging between 3.250 - 4.00%. Interest payments on the Series 2016 QSCB Refunding Bonds are due May 1 and November 1 of each year. Payments of principal and interest are recorded as cash disbursements of the bond retirement fund.

**HOPEWELL-LOUDON LOCAL SCHOOL DISTRICT
SENECA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 9 - LONG-TERM OBLIGATIONS - (Continued)

Principal and interest requirements to retire the long-term obligations at June 30, 2017 are as follows:

| Fiscal Year Ending June 30, | Series 2010 OSFC Bonds | | | Series 2010 QSCB | | |
|--------------------------------|------------------------|-------------------|-------------------|---------------------|---------------------|---------------------|
| | Principal | Interest | Total | Principal | Interest | Total |
| 2018 | \$ 60,000 | \$ 26,635 | \$ 86,635 | \$ 339,000 | \$ 241,028 | \$ 580,028 |
| 2019 | 70,000 | 24,985 | 94,985 | 355,000 | 222,508 | 577,508 |
| 2020 | 85,000 | 22,290 | 107,290 | 371,000 | 203,114 | 574,114 |
| 2021 | 90,000 | 19,655 | 109,655 | 383,000 | 182,847 | 565,847 |
| 2022 | 95,000 | 16,730 | 111,730 | 395,000 | 161,923 | 556,923 |
| 2023 - 2027 | 360,000 | 27,750 | 387,750 | 2,114,000 | 477,029 | 2,591,029 |
| 2028 - 2030 | - | - | - | 595,000 | 814,857 | 1,409,857 |
| Total | <u>\$ 760,000</u> | <u>\$ 138,045</u> | <u>\$ 898,045</u> | <u>\$ 4,552,000</u> | <u>\$ 2,303,306</u> | <u>\$ 6,855,306</u> |

| Fiscal Year Ending June 30, | Series 2016 Refunding OSFC Bonds | | | Series 2016 Refunding QSCB | | |
|--------------------------------|----------------------------------|---------------------|---------------------|----------------------------|---------------------|---------------------|
| | Principal | Interest | Total | Principal | Interest | Total |
| 2018 | \$ - | \$ 163,400 | \$ 163,400 | \$ - | \$ 163,038 | \$ 163,038 |
| 2019 | - | 163,400 | 163,400 | - | 163,038 | 163,038 |
| 2020 | - | 163,400 | 163,400 | - | 163,038 | 163,038 |
| 2021 | - | 163,400 | 163,400 | - | 163,038 | 163,038 |
| 2022 | - | 163,400 | 163,400 | - | 163,038 | 163,038 |
| 2023 - 2027 | 285,000 | 805,900 | 1,090,900 | - | 815,190 | 815,190 |
| 2028 - 2032 | 965,000 | 669,700 | 1,634,700 | 305,000 | 803,087 | 1,108,087 |
| 2033 - 2037 | 1,565,000 | 424,300 | 1,989,300 | 940,000 | 664,785 | 1,604,785 |
| 2038 - 2042 | 1,270,000 | 78,400 | 1,348,400 | 1,275,000 | 444,085 | 1,719,085 |
| 2043 - 2047 | - | - | - | 1,565,000 | 187,606 | 1,752,606 |
| 2048 | - | - | - | 350,000 | 5,688 | 355,688 |
| Total | <u>\$ 4,085,000</u> | <u>\$ 2,795,300</u> | <u>\$ 6,880,300</u> | <u>\$ 4,435,000</u> | <u>\$ 3,735,631</u> | <u>\$ 8,170,631</u> |

B. Legal Debt Margin

The Ohio Revised Code provides that voted net general obligation debt of the District shall never exceed 9% of the total assessed valuation of the District. The Code further provides that unvoted indebtedness shall not exceed 1/10 of 1% of the property valuation of the District. The Code additionally states that unvoted indebtedness related to energy conservation debt shall not exceed 9/10 of 1% of the property valuation of the District. The assessed valuation used in determining the District's legal debt margin has been modified by House Bill 530 which became effective March 30, 2006. In accordance with House Bill 530, the assessed valuation used in the District's legal debt margin calculation excluded tangible personal property used in business, telephone or telegraph property, interexchange telecommunications company property, and personal property owned or leased by a railroad company and used in railroad operations.

The Ohio Revised Code further provides that when a Board of Education declares a resolution that the student population is not adequately served by existing facilities, and that insufficient capacity exists within the 9% limit to finance additional facilities, the State Department of Education may declare that district a "special needs" district. This permits the incurrence of additional debt based upon projected five-year growth of the school district's assessed valuation. The District was determined to be a "special needs" district by the State Superintendent.

**HOPEWELL-LOUDON LOCAL SCHOOL DISTRICT
SENECA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 10 - RISK MANAGEMENT

A. Commercial Insurance

The District has obtained commercial insurance for comprehensive property and general liability, vehicles, and errors and omissions.

B. Self-Insurance

The District is self-insured for dental and vision benefits to employees. The District established a self-insurance internal service fund to account for and finance the dental and vision benefits program. Under the program, the self-insurance fund provides coverage up to a maximum of \$1,000 per individual, per year for dental insurance, and various limits of coverage per individual, per year for vision insurance based on the services provided. The District reimburses the individuals for dental and vision services received up to their maximum limits.

A comparison of self-insurance fund cash and investments to the actuary-measured liability as of June 30, 2017 and June 30, 2016 are as follows:

| | <u>2017</u> | <u>2016</u> | |
|-----------------------|-------------|-------------|--|
| Cash and investments | \$ 57,066 | \$ 68,786 | |
| Actuarial liabilities | n/a | n/a | |

C. Health and Life Insurance Programs

The District is a member of the Jefferson Health Plan (formerly known as the Ohio Mid-Eastern Regional Education Service Agency Health Benefit Plan) for its self-insured health and life insurance programs. The Jefferson Health Plan provides jointly administrated benefit programs for schools. The Jefferson Health Plan has designated Self-Funded Plans, Inc. of Cleveland as their claims administrator. Interfund rates are charged based on claims approved by the claims administrator.

A comparison of self-insurance fund cash and investments to the actuary-measured liability as of June 30, 2017 and June 30, 2016 are as follows:

| | <u>2017</u> | <u>2016</u> | |
|-----------------------|-------------|-------------|--|
| Cash and investments | \$ 432,120 | \$ 212,683 | |
| Actuarial liabilities | n/a | n/a | |

NOTE 11 - 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.

**HOPEWELL-LOUDON LOCAL SCHOOL DISTRICT
SENECA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 11 - PENSION PLANS - (Continued)

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

Age and service requirements for retirement are as follows:

| | Eligible to Retire on or before August 1, 2017 * | Eligible to Retire 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, 2017, the allocation to pension, death benefits, and Medicare B was 14 percent. None of the employer contribution rate was allocated to the Health Care Fund.

**HOPEWELL-LOUDON LOCAL SCHOOL DISTRICT
SENECA COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

NOTE 11 - PENSION PLANS - (Continued)

The District's contractually required contribution to SERS was \$140,984 for fiscal year 2017.

Plan Description - State Teachers Retirement System (STRS)

Plan Description – District licensed teachers 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.

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 years of qualifying service credit, or age 55 with 25 years of service, or 30 years of service regardless of age. Age and service requirements for retirement will increase effective August 1, 2015, and will continue to increase periodically until they reach age 60 with 35 years of service or age 65 with five years 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, 11.5% of the 13% member rate goes to the DC Plan and the remaining 1.5% 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 services. The defined contribution portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity at age 50.

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

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

**HOPEWELL-LOUDON LOCAL SCHOOL DISTRICT
SENECA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 11 - PENSION PLANS - (Continued)

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 fiscal year 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 2017 contribution rates were equal to the statutory maximum rates.

The District's contractually required contribution to STRS Ohio was \$541,402 for fiscal year 2017.

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 Ohio</u> | <u>Total</u> |
|--|----------------------|----------------------|---------------|
| Proportion of the net pension liability prior measurement date | 0.02980070% | 0.03116723% | |
| Proportion of the net pension liability current measurement date | <u>0.03060300%</u> | <u>0.03272652%</u> | |
| Change in proportionate share | █ <u>0.00080230%</u> | █ <u>0.00155929%</u> | |
| Proportionate share of the net pension liability | \$ 2,239,857 | \$ 10,954,553 | \$ 13,194,410 |

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.

**HOPEWELL-LOUDON LOCAL SCHOOL DISTRICT
SENECA COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

NOTE 11 - PENSION PLANS - (Continued)

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 (level percent of payroll) |

For post-retirement mortality, the table used in evaluating allowances to be paid is the RP-2014 Blue Collar Mortality Table with fully generational projection and Scale BB, with 120% of male rates and 110% of female rates used. The RP-2000 Disabled Mortality Table with 90% for male rates and 100% for female rates set back five years is used for the period after disability retirement. Special mortality tables are used for the period after disability retirement.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an experience study that was completed June 30, 2015. As a result of the actuarial experience study, the following changes of assumptions affected the total pension liability since the prior measurement date: (a) the assumed rate of inflation was reduced from 3.25% to 3.00%, (b) payroll growth assumption was reduced from 4.00% to 3.50%, (c) assumed real wage growth was reduced from 0.75% to 0.50%, (d) Rates of withdrawal, retirement and disability were updated to reflect recent experience, (e) mortality among active members was updated to RP-2014 Blue Collar Mortality Table with fully generational projection and a five year age set-back for both males and females, (f) mortality among service retired members, and beneficiaries was updated to the following RP-2014 Blue Collar Mortality Table with fully generational projection with Scale BB, 120% of male rates, and 110% of female rates and (g) mortality among disable member was updated to 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 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.

**HOPEWELL-LOUDON LOCAL SCHOOL DISTRICT
SENECA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 11 - PENSION PLANS - (Continued)

The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

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

Discount Rate - The total pension liability was calculated using the discount rate of 7.50 percent. 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 | \$ 2,965,431 | \$ 2,239,857 | \$ 1,632,521 |

Actuarial Assumptions - STRS Ohio

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. |

**HOPEWELL-LOUDON LOCAL SCHOOL DISTRICT
SENECA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 11 - PENSION PLANS - (Continued)

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.

STRS Ohio's 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 | 31.00 % | 8.00 % |
| International Equity | 26.00 | 7.85 |
| Alternatives | 14.00 | 8.00 |
| Fixed Income | 18.00 | 3.75 |
| Real Estate | 10.00 | 6.75 |
| Liquidity Reserves | <u>1.00</u> | 3.00 |
| Total | <u>100.00 %</u> | <u>7.61 %</u> |

*10-Year geometric nominal returns, which include the real rate of return and inflation of 2.50% and does not include investment expenses. The total fund long-term expected return reflects diversification among the asset classes and therefore is not a weighted average return of the individual asset classes.

Discount Rate - The discount rate used to measure the total pension liability was 7.75 percent as of June 30, 2016. The projection of cash flows used to determine the discount rate assumes member and employer contributions will be made at the statutory contribution rates in accordance with rate increases described above. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions 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:

| | <u>1% Decrease (6.75%)</u> | <u>Current Discount Rate (7.75%)</u> | <u>1% Increase (8.75%)</u> |
|---|--------------------------------|--|--------------------------------|
| District's proportionate share of the net pension liability | \$ 14,557,710 | \$ 10,954,553 | \$ 7,915,077 |

**HOPEWELL-LOUDON LOCAL SCHOOL DISTRICT
SENECA COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

NOTE 11 - PENSION PLANS - (Continued)

Changes Between Measurement Date and Report Date - In March 2017, the STRS Board adopted certain assumption changes which impacted their annual actuarial valuation prepared as of July 1, 2016. The most significant changes are a reduction in the expected investment return to 7.45% from 7.75% and a change to updated generational mortality tables. Although the exact amount of these changes is not known, the impact to the District's net pension liability is expected to be significant.

NOTE 12 - POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

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 45 purposes, this plan is considered a cost-sharing, multiple-employer, defined benefit other postemployment benefit (OPEB) plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's, Medicare Advantage, and traditional indemnity plans as well as a prescription drug program. The financial report of the Plan is included in the SERS Comprehensive Annual Financial Report which can be obtained on SERS' website at www.ohsers.org under Employers/Audit Resources.

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

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required basic benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. For fiscal year 2017, no portion of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. For fiscal year 2017, this amount was \$23,500. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge.

The District's contributions for health care for the fiscal years ended June 30, 2017, 2016, and 2015 were \$15,135, \$15,020, and \$21,765, respectively. 100 percent has been contributed for fiscal years 2017, 2016 and 2015.

B. State Teachers Retirement System of Ohio

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

**HOPEWELL-LOUDON LOCAL SCHOOL DISTRICT
SENECA COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

NOTE 12 - POSTEMPLOYMENT BENEFITS - (Continued)

Funding Policy - Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2017, STRS Ohio did not allocate any employer contributions to the Health Care Stabilization Fund. For fiscal years 2015-2017, STRS Ohio did not allocate any employer contributions to fund postemployment health care.

NOTE 13 - CONTINGENCIES

A. Grants

The District receives significant financial assistance from numerous federal, State and local agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the District. However, in the opinion of management, any such disallowed claims will not have a material effect on the financial position of the District.

B. Litigation

The District is not party to any legal proceedings that would have a material effect, if any, on the financial condition of the District.

C. Foundation Funding

The District's Foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. 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 Foundation funding for the District; therefore, the financial statement impact is not determinable at this time.

NOTE 14 - SET-ASIDES

The District is required by State law to annually set-aside certain general fund cash receipt amounts, as defined by statutory formula, for the acquisition and construction of capital improvements. Amounts not spent by the end of the fiscal year or offset by similarly restricted resources received during the year must be held in cash at fiscal year end. This amount must be carried forward to be used for the same purpose in future years. Disbursements and other applicable offsets exceeding the set-aside requirement may not be carried forward to the next fiscal year.

**HOPEWELL-LOUDON LOCAL SCHOOL DISTRICT
SENECA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 14 - SET-ASIDES - (Continued)

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

| | <u>Capital Improvements</u> |
|---|---------------------------------|
| Set-aside balance June 30, 2016 | \$ - |
| Current year set-aside requirement | 153,294 |
| Prior year offset from debt proceeds | <u>(153,294)</u> |
| Total | <u>\$ -</u> |
| Balance carried forward to fiscal year 2018 | <u>\$ -</u> |
| Set-aside balance June 30, 2017 | <u>\$ -</u> |

During fiscal year 2011, the District issued a total of \$16,335,000 in capital related school improvement bonds. These proceeds may be used to reduce the capital improvements set-aside amount for future years. The amount presented for prior year offset from debt proceeds is limited to an amount needed to reduce the capital improvements set-aside balance to \$0. The District is responsible for tracking the amount of debt proceeds that may be used as an offset in future periods, which was \$15,553,134 at June 30, 2017.

NOTE 15 - COMMITMENTS

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

| <u>Fund</u> | <u>Year End Encumbrances</u> |
|-----------------------------|----------------------------------|
| General fund | \$ 160,838 |
| Bond retirement fund | 145,284 |
| Nonmajor governmental funds | <u>16,879</u> |
| Total | <u>\$ 323,001</u> |

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**HOPEWELL-LOUDON LOCAL SCHOOL DISTRICT
SENECA COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(UNAUDITED)**

The management's discussion and analysis of the Hopewell-Loudon Local School District's (the "District") financial performance provides an overall review of the District's cash basis financial activities for the fiscal year ended June 30, 2016. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the District's financial performance.

Financial Highlights

Key financial highlights for fiscal year 2016 are as follows:

- The total net cash position of the District increased \$986,973 or 14.88% from fiscal year 2015.
- General cash receipts accounted for \$7,345,030 in cash receipts or 69.44% of total cash receipts. Program specific cash receipts in the form of charges for services and sales and grants and contributions accounted for \$3,232,143 in cash receipts or 30.56% of total cash receipts of \$10,577,173.
- The District had \$9,590,200 in cash disbursements related to governmental activities; \$3,232,143 of these cash disbursements were offset by program specific charges for services, grants or contributions. General cash receipts supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$7,345,030 were adequate to provide for these programs during fiscal year 2016.
- The District's major governmental funds are the general fund, the bond retirement fund, and the building fund. The general fund had \$8,755,939 in cash receipts and other financing sources and \$8,065,015 in cash disbursements and other financing uses. During fiscal year 2016, the general fund's fund cash balance increased \$690,924 from \$3,613,014 to \$4,303,938.
- The bond retirement fund had \$1,267,693 in cash receipts and other financing sources and \$889,482 in cash disbursements. During fiscal year 2016, the bond retirement fund's fund cash balance increased \$378,211 from \$863,394 to \$1,241,605.
- The building fund had \$72,472 in cash disbursements and other financing uses. During fiscal year 2016, the building fund's fund cash balance decreased \$72,472 from \$965,517 to \$893,045.

Using the Cash Basis Basic Financial Statements (BFS)

This annual report is presented in a format consistent with the presentation requirements of the Governmental Accounting Standards Board (GASB) Statement No. 34, as applicable to the District's cash basis of accounting.

The statement of net position – cash basis and statement of activities – cash basis provide information about the activities of the whole District, presenting an aggregate view of the District's cash basis finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the District's most significant funds with all other nonmajor funds presented in total in one column. In the case of the District, the general fund, the bond retirement fund, and the building fund are all reported as major funds.

**HOPEWELL-LOUDON LOCAL SCHOOL DISTRICT
SENECA COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(UNAUDITED)**

Reporting the District as a Whole

Statement of Net Position - Cash Basis and the Statement of Activities - Cash Basis

The statement of net position – cash basis and the statement of activities – cash basis answer the question, “How did the District do financially during fiscal year 2016?” These statements include only net position using the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. This basis of accounting takes into account only the current year’s receipts and disbursements if the cash is actually received or paid.

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

As a result of the use of the cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services and not collected) and liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

In the statement of net position – cash basis and statement of activities – cash basis, the governmental activities include the District’s programs and services, including instruction, support services, operation and maintenance of plant, pupil transportation, extracurricular activities, and food service operations.

The District’s statement of net position – cash basis and statement of activities – cash basis can be found on pages 13-14 of this report.

Reporting the District’s Most Significant Funds

Fund Financial Statements

The analysis of the District’s major governmental funds begins on page 9. 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 fund, the bond retirement fund, and the building fund.

Governmental Funds

Most of the District’s activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. The governmental fund statements provide a detailed view of the District’s operations and the basic services it provides. Governmental fund information helps to determine whether there are more or fewer cash basis financial resources that can be readily spent to finance various District programs. The relationship (or differences) between governmental activities (reported in the statement of net position – cash basis and statement of activities – cash basis) and governmental funds is reconciled in the basic financial statements. The basic governmental fund financial statements can be found on pages 15-19 of this report.

**HOPEWELL-LOUDON LOCAL SCHOOL DISTRICT
SENECA COUNTY, OHIO**

MANAGEMENT’S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(UNAUDITED)

Proprietary Funds

The District maintains one proprietary fund, an internal service fund. Internal service funds are an accounting device used to accumulate and allocate costs internally among the District’s various functions. The District’s internal service fund accounts for self-insurance programs. The basic proprietary fund financial statements can be found on pages 20-21 of this report.

Reporting the District’s Fiduciary Responsibilities

The District is the trustee, or fiduciary, for its scholarship programs. This activity is presented as a private-purpose trust fund. The District also acts in a trustee capacity as an agent for individuals or other entities. These activities are reported in agency funds. All of the District’s fiduciary activities are reported in separate statements of fiduciary net position – cash basis and changes in fiduciary net position – cash basis on pages 22-23. These activities are excluded from the District’s other financial statements because the assets cannot be utilized by the District to finance its operations.

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. These notes to the basic financial statements can be found on pages 25-48 of this report.

Government-wide Financial Analysis

The table below provides a summary of the District’s net cash position at June 30, 2016 and June 30, 2015.

| | Net Cash Position | |
|---------------------------------|------------------------------------|------------------------------------|
| | Governmental Activities 2016 | Governmental Activities 2015 |
| | <u>2016</u> | <u>2015</u> |
| <u>Assets</u> | | |
| Current assets | \$ 7,621,183 | \$ 6,634,210 |
| <u>Net Cash Position</u> | | |
| Restricted | 2,663,202 | 2,344,558 |
| Unrestricted | <u>4,957,981</u> | <u>4,289,652</u> |
| Total net cash position | <u>\$ 7,621,183</u> | <u>\$ 6,634,210</u> |

Over time, net cash position can serve as a useful indicator of an entity’s financial position. At June 30, 2016, the total net cash position of the District was \$7,621,183. A portion of the District’s net cash position, \$2,663,202, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net cash position of \$4,957,981 may be used to meet the District’s ongoing obligations to the students and creditors.

**HOPEWELL-LOUDON LOCAL SCHOOL DISTRICT
SENECA COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(UNAUDITED)

The table below shows the change in net cash position for fiscal years 2016 and 2015.

| | Change in Net Cash Position | |
|--------------------------------------|------------------------------------|----------------------------|
| | Governmental Activities | Governmental Activities |
| | <u>2016</u> | <u>2015</u> |
| <u>Cash receipts:</u> | | |
| Program cash receipts: | | |
| Charges for services and sales | \$ 2,022,323 | \$ 2,066,978 |
| Operating grants and contributions | 1,209,820 | 1,072,756 |
| General cash receipts: | | |
| Property taxes | 3,532,311 | 3,295,457 |
| Income taxes | 443,921 | 455,159 |
| Unrestricted grants and entitlements | 3,245,316 | 2,771,655 |
| Restricted grants and entitlements | - | 15,772 |
| Investment earnings | 23,981 | 22,437 |
| Miscellaneous | <u>99,501</u> | <u>99,985</u> |
| Total cash receipts | <u>10,577,173</u> | <u>9,800,199</u> |

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**HOPEWELL-LOUDON LOCAL SCHOOL DISTRICT
SENECA COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(UNAUDITED)

| | Change in Net Cash Position (Continued) | |
|--|--|----------------------------|
| | Governmental Activities | Governmental Activities |
| | <u>2016</u> | <u>2015</u> |
| <u>Cash disbursements:</u> | | |
| Current: | | |
| Instruction: | | |
| Regular | \$ 4,258,553 | \$ 3,902,882 |
| Special | 1,160,520 | 1,146,502 |
| Vocational | 7,762 | 9,060 |
| Other | 1,757 | 2,229 |
| Support services: | | |
| Pupil | 328,807 | 328,346 |
| Instructional staff | 195,269 | 192,535 |
| Board of education | 16,362 | 23,098 |
| Administration | 502,857 | 538,542 |
| Fiscal | 297,694 | 287,709 |
| Operations and maintenance | 861,745 | 655,404 |
| Pupil transportation | 249,852 | 381,023 |
| Central | 19,538 | 22,647 |
| Operation of non-instructional services: | | |
| Other non-instructional services | - | 522 |
| Food service operations | 325,315 | 315,847 |
| Extracurricular activities | 422,646 | 471,218 |
| Facilities acquisition and construction | 63,477 | 861,865 |
| Debt service: | | |
| Principal retirement | 376,000 | 360,000 |
| Interest and fiscal charges | 502,046 | 911,980 |
| Total cash disbursements | <u>9,590,200</u> | <u>10,411,409</u> |
| Change in net cash position | 986,973 | (611,210) |
| Net cash position at beginning of year | <u>6,634,210</u> | <u>7,245,420</u> |
| Net cash position at end of year | <u><u>\$ 7,621,183</u></u> | <u><u>\$ 6,634,210</u></u> |

Governmental Activities

Net cash position of the District's governmental activities increased \$986,973. Total governmental cash disbursements of \$9,590,200 were offset by program cash receipts of \$3,232,143 and general cash receipts of \$7,345,030. Program cash receipts supported 33.70% of the total governmental cash disbursements. The largest cash disbursement category of the District is for instructional programs, which totaled \$5,428,592. Facilities acquisition and construction cash disbursements decreased due to the closeout of the District's Ohio Facilities Construction Commission (OFCC) construction project during fiscal year 2016.

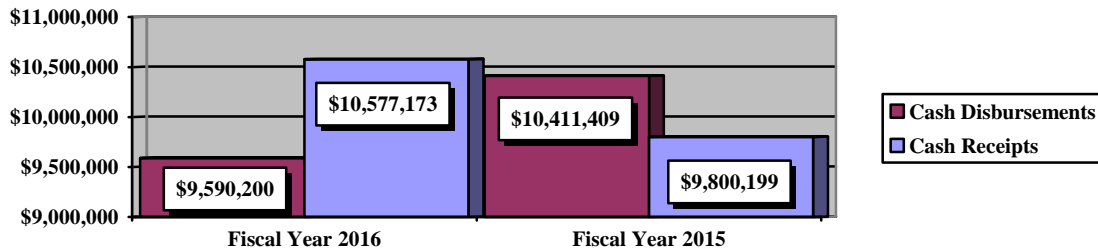
**HOPEWELL-LOUDON LOCAL SCHOOL DISTRICT
SENECA COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(UNAUDITED)

The primary sources of cash receipts for governmental activities are derived from taxes and unrestricted grants and entitlements. These cash receipt sources represent 68.27% of total governmental cash receipts. Real estate property is reappraised every six years.

The graph below presents the District's cash receipts and cash disbursements for fiscal years 2016 and 2015.

Governmental Activities - Cash Receipts and Cash Disbursements



The table below presents the District's total cost of services and net cost of services for fiscal years 2016 and 2015.

| | Governmental Activities | | | |
|--|--|--|--|--|
| | Total Cost of Services <u>2016</u> | Net Cost of Services <u>2016</u> | Total Cost of Services <u>2015</u> | Net Cost of Services <u>2015</u> |
| Cash disbursements: | | | | |
| Instruction: | | | | |
| Regular | \$ 4,258,553 | \$ 2,682,401 | \$ 3,902,882 | \$ 2,399,453 |
| Special | 1,160,520 | 713,541 | 1,146,502 | 556,008 |
| Vocational | 7,762 | 6,088 | 9,060 | 4,253 |
| Other | 1,757 | 1,757 | 2,229 | 2,229 |
| Support services: | | | | |
| Pupil | 328,807 | 273,901 | 328,346 | 269,618 |
| Instructional staff | 195,269 | 191,669 | 192,535 | 188,935 |
| Board of education | 16,362 | 16,362 | 23,098 | 23,098 |
| Administration | 502,857 | 500,597 | 538,542 | 536,956 |
| Fiscal | 297,694 | 297,694 | 287,709 | 287,709 |
| Operations and maintenance | 861,745 | 850,355 | 655,404 | 650,243 |
| Pupil transportation | 249,852 | 229,692 | 381,023 | 362,064 |
| Central | 19,538 | 19,538 | 22,647 | 22,647 |
| Operation of non-instructional services: | | | | |
| Other non-instructional services | - | - | 522 | 1 |
| Food service operations | 325,315 | (2,209) | 315,847 | 5,144 |
| Extracurricular activities | 422,646 | 183,351 | 471,218 | 209,089 |
| Facilities acquisition and construction | 63,477 | 63,477 | 861,865 | 861,865 |
| Debt service: | | | | |
| Principal retirement | 376,000 | 376,000 | 360,000 | 360,000 |
| Interest and fiscal charges | 502,046 | (46,157) | 911,980 | 532,363 |
| Total | <u>\$ 9,590,200</u> | <u>\$ 6,358,057</u> | <u>\$ 10,411,409</u> | <u>\$ 7,271,675</u> |

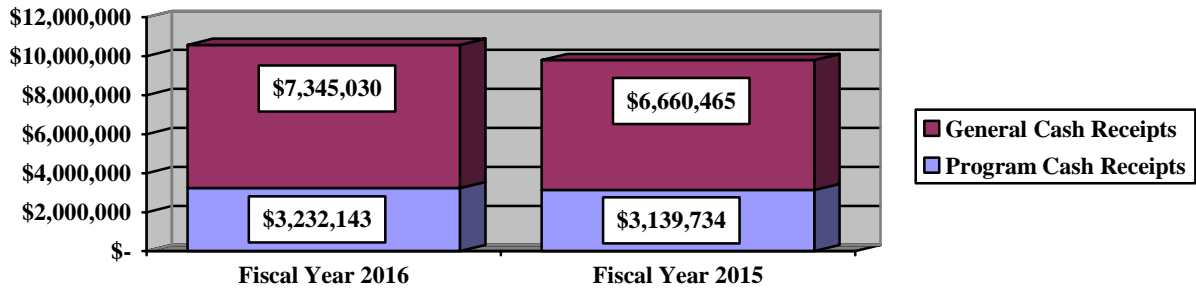
**HOPEWELL-LOUDON LOCAL SCHOOL DISTRICT
SENECA COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(UNAUDITED)

The dependence upon taxes and other general cash receipts for governmental activities is apparent, as 66.30% of cash disbursements are supported through taxes and other general cash receipts.

The graph below presents the District's governmental activities cash receipts for fiscal years 2016 and 2015.

Governmental Activities - General and Program Cash Receipts



Financial Analysis of the Government's Funds

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

The District's governmental funds are accounted for using the cash basis of accounting.

The District's governmental funds reported a combined fund cash balance of \$7,339,714, which is greater than last year's total fund cash balance of \$6,443,662. The table below indicates the fund cash balance and the total change in fund cash balance as of June 30, 2016 and June 30, 2015.

| | Fund Cash Balance <u>June 30, 2016</u> | Fund Cash Balance <u>June 30, 2015</u> | Increase/ (Decrease) | Percentage <u>Change</u> |
|-----------------------|--|--|-------------------------|-----------------------------|
| General | \$ 4,303,938 | \$ 3,613,014 | \$ 690,924 | 19.12 % |
| Bond retirement | 1,241,605 | 863,394 | 378,211 | 43.81 % |
| Building | 893,045 | 965,517 | (72,472) | (7.51) % |
| Nonmajor governmental | <u>901,126</u> | <u>1,001,737</u> | <u>(100,611)</u> | (10.04) % |
| Total | <u>\$ 7,339,714</u> | <u>\$ 6,443,662</u> | <u>\$ 896,052</u> | 13.91 % |

**HOPEWELL-LOUDON LOCAL SCHOOL DISTRICT
SENECA COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(UNAUDITED)

General Fund

The District's general fund cash balance increased \$690,924.

The table that follows assists in illustrating the cash receipts of the general fund for fiscal years 2016 and 2015.

| | <u>2016</u> <u>Amount</u> | <u>2015</u> <u>Amount</u> | <u>Percentage</u> <u>Change</u> |
|------------------------------|------------------------------|------------------------------|------------------------------------|
| <u>Cash Receipts:</u> | | | |
| Taxes | \$ 3,467,971 | \$ 3,206,110 | 8.17 % |
| Tuition | 1,543,617 | 1,589,845 | (2.91) % |
| Earnings on investments | 22,622 | 14,137 | 60.02 % |
| Intergovernmental | 3,448,379 | 2,973,999 | 15.95 % |
| Other receipts | <u>173,350</u> | <u>189,559</u> | (8.55) % |
| Total | <u>\$ 8,655,939</u> | <u>\$ 7,973,650</u> | 8.56 % |

Overall cash receipts of the general fund increased \$682,289 or 8.56%. Taxes increased \$261,861 or 8.17% primarily due to an increase in property taxes received by the District during the fiscal year. Tuition decreased \$46,228 or 2.91% mainly due to a decline in open enrollment receipts in fiscal year 2016. Intergovernmental cash receipts increased \$474,380 or 15.95%, which is primarily attributable to an increase in interest subsidies received from the federal government. Earnings on investment increased 8,485 or 60.02% due to the improvements in the economy.

The table that follows assists in illustrating the cash disbursements of the general fund for fiscal years 2016 and 2015.

| | <u>2016</u> <u>Amount</u> | <u>2015</u> <u>Amount</u> | <u>Percentage</u> <u>Change</u> |
|-----------------------------------|------------------------------|------------------------------|------------------------------------|
| <u>Cash Disbursements:</u> | | | |
| Instruction | \$ 5,293,173 | \$ 4,792,450 | 10.45 % |
| Support services | 2,271,117 | 2,190,782 | 3.67 % |
| Extracurricular activities | <u>255,068</u> | <u>268,432</u> | (4.98) % |
| Total | <u>\$ 7,819,358</u> | <u>\$ 7,251,664</u> | 7.83 % |

Overall cash disbursements of the general fund increased \$567,694 or 7.83%. The minimal change in cash disbursements, both in total and by line item, is an indication of the District's effort to control costs.

Bond Retirement Fund

During fiscal year 2016, the bond retirement fund's fund cash balance increased \$378,211 from \$863,394 to \$1,241,605. The District continues to maintain a fund cash balance in the bond retirement fund that is sufficient to support current and future debt service requirements.

Building Fund

During fiscal year 2016, the building fund's fund cash balance decreased \$72,472 from \$965,517 to \$893,045, which is primarily due to the completion of the OFCC project.

**HOPEWELL-LOUDON LOCAL SCHOOL DISTRICT
SENECA COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(UNAUDITED)

Budgeting Highlights - General Fund

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

For the general fund, final budgetary basis receipts and other financing sources of \$8,037,200 were equal to the original budget estimates. Actual budgetary basis receipts and other financing sources of \$8,714,428 were \$677,228 greater than the final budget estimates.

The final and original budgetary basis disbursements and other financing uses were \$8,472,448 and \$8,380,570, respectively. The actual budgetary basis disbursements and other financing uses of \$8,253,086 were \$219,362 less than the final budget estimates.

Capital Assets and Debt Administration

Capital Assets

The District does not record capital assets in the accompanying cash basis basic financial statements, but records payments for capital assets as cash disbursements. The District had facilities acquisition and construction cash disbursements of \$63,477 during fiscal year 2016.

Debt Administration

At June 30, 2016, the District had \$14,592,000 in bonds outstanding. Of this total, \$390,000 is due within one year and \$14,202,000 is due in more than one year. The following table summarizes the general obligation bonds outstanding at June 30, 2016 and June 30, 2015.

| | Governmental Activities <u>2016</u> | Governmental Activities <u>2015</u> |
|--------------------------|---|---|
| General obligation bonds | <u>\$ 14,592,000</u> | <u>\$ 14,968,000</u> |

See Note 9 to the basic financial statements for detail on the District's debt administration.

Current Financial Related Activities

The District continues to maintain a high standard of service to its students, parents, and the community.

The District has a stable financial outlook. The Board of Education and administration closely monitor the District's receipts and disbursements in accordance with its financial forecast.

The District has communicated to its community that it relies upon its support for the majority of its operations, and will continue to work diligently to plan disbursements, staying carefully within the District's five-year financial plan. The support of the community was measured in May of 2010 when the voters approved a 5.88 mill levy, and 0.5% income tax for new facilities with the Ohio Facilities Construction Commission. The District built a new 174,000 square foot K-12 building, which opened in the fall of 2014. The last operating levy was passed in 1989. An operating levy was replaced with an emergency levy in 2005. This replacement was for \$570,000 and continues to be renewed for five-year periods. Most recently, the emergency levy was renewed on May 6, 2014. This levy is important to the District's financial condition going forward and its commitment to serving its students.

**HOPEWELL-LOUDON LOCAL SCHOOL DISTRICT
SENECA COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(UNAUDITED)**

During fiscal year 2015, the District experienced a significant increase in CAUV valuation, which resulted in a substantial increase in property tax receipts. This increase, along with the renewal of the emergency levy, has afforded the District some financial stability that will help offset funding concerns associated with the District's enrollment figures.

All of the District's financial abilities will be needed to meet the challenges of the future. It is imperative that the Board of Education and administrative team continue to carefully and prudently plan in order to provide the resources required to meet students' needs over the next several years, operating within the means of the District's budget.

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 receives. If you have questions about this report or need additional financial information contact Ms. Jennifer Hedrick, Treasurer, Hopewell-Loudon Local School District, 290 North County Road #7, Bascom, Ohio 44809-0400.

**HOPEWELL-LOUDON LOCAL SCHOOL DISTRICT
SENECA COUNTY, OHIO**

STATEMENT OF NET POSITION - CASH BASIS
JUNE 30, 2016

| | <u>Governmental Activities</u> |
|---|---|
| Assets: | |
| Equity in pooled cash and investments | \$ 7,408,500 |
| Cash with fiscal agent | <u>212,683</u> |
| Total assets. | <u><u>7,621,183</u></u> |
| Net cash position: | |
| Restricted for: | |
| Capital projects | 893,045 |
| Classroom facilities maintenance | 232,602 |
| Debt service. | 1,241,605 |
| Locally funded programs | 8,263 |
| State funded programs. | 1,800 |
| Extracurricular activities | 70,054 |
| Food service operations. | 215,833 |
| Unrestricted | <u>4,957,981</u> |
| Total net cash position | <u><u>\$ 7,621,183</u></u> |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**HOPEWELL-LOUDON LOCAL SCHOOL DISTRICT
SENECA COUNTY, OHIO**

STATEMENT OF ACTIVITIES - CASH BASIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

| | Cash Disbursements | Program Cash Receipts | | Net (Disbursements) Receipts and Changes in Net Cash Position Governmental Activities |
|--|-----------------------|-----------------------------------|---------------------------------------|--|
| | | Charges for Services and Sales | Operating Grants and Contributions | |
| Governmental activities: | | | | |
| Instruction: | | | | |
| Regular | \$ 4,258,553 | \$ 1,573,887 | \$ 2,265 | \$ (2,682,401) |
| Special | 1,160,520 | 2,760 | 444,219 | (713,541) |
| Vocational | 7,762 | - | 1,674 | (6,088) |
| Other | 1,757 | - | - | (1,757) |
| Support services: | | | | |
| Pupil | 328,807 | - | 54,906 | (273,901) |
| Instructional staff | 195,269 | - | 3,600 | (191,669) |
| Board of education | 16,362 | - | - | (16,362) |
| Administration | 502,857 | 2,260 | - | (500,597) |
| Fiscal | 297,694 | - | - | (297,694) |
| Operations and maintenance | 861,745 | 11,390 | - | (850,355) |
| Pupil transportation | 249,852 | 16,669 | 3,491 | (229,692) |
| Central | 19,538 | - | - | (19,538) |
| Operation of non-instructional services: | | | | |
| Other non-instructional services | - | - | - | - |
| Food service operations | 325,315 | 182,578 | 144,946 | 2,209 |
| Extracurricular activities | 422,646 | 232,779 | 6,516 | (183,351) |
| Facilities acquisition and construction | 63,477 | - | - | (63,477) |
| Debt service: | | | | |
| Principal retirement | 376,000 | - | - | (376,000) |
| Interest and fiscal charges | 502,046 | - | 548,203 | 46,157 |
| Totals | \$ 9,590,200 | \$ 2,022,323 | \$ 1,209,820 | (6,358,057) |
| General cash receipts: | | | | |
| Property taxes levied for: | | | | |
| General purposes | | | | 3,024,050 |
| Debt service | | | | 508,261 |
| Income taxes levied for: | | | | |
| General purposes | | | | 443,921 |
| Grants and entitlements not restricted to specific programs | | | | 3,245,316 |
| Investment earnings | | | | 23,981 |
| Miscellaneous | | | | 99,501 |
| Total general cash receipts | | | | 7,345,030 |
| Change in net cash position | | | | 986,973 |
| Net cash position at beginning of year | | | | 6,634,210 |
| Net cash position at end of year | | | | \$ 7,621,183 |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**HOPEWELL-LOUDON LOCAL SCHOOL DISTRICT
SENECA COUNTY, OHIO**

STATEMENT OF ASSETS AND FUND BALANCES - CASH BASIS
GOVERNMENTAL FUNDS
JUNE 30, 2016

| | <u>General</u> | <u>Bond Retirement</u> | <u>Building</u> | <u>Nonmajor Governmental Funds</u> | <u>Total Governmental Funds</u> |
|---|---------------------|----------------------------|-------------------|--|---|
| Assets: | | | | | |
| Equity in pooled cash and investments | \$ 4,303,938 | \$ 1,241,605 | \$ 893,045 | \$ 901,126 | \$ 7,339,714 |
| Total assets | <u>\$ 4,303,938</u> | <u>\$ 1,241,605</u> | <u>\$ 893,045</u> | <u>\$ 901,126</u> | <u>\$ 7,339,714</u> |
| Fund cash balances: | | | | | |
| Restricted: | | | | | |
| Debt service | \$ - | \$ 1,241,605 | \$ - | \$ - | \$ 1,241,605 |
| Capital improvements | - | - | 893,045 | - | 893,045 |
| Classroom facilities maintenance | - | - | - | 232,602 | 232,602 |
| Food service operations | - | - | - | 215,833 | 215,833 |
| Extracurricular activities | - | - | - | 70,054 | 70,054 |
| Other purposes. | - | - | - | 10,063 | 10,063 |
| Committed: | | | | | |
| Termination benefits. | 290,061 | - | - | - | 290,061 |
| Assigned: | | | | | |
| Student instruction | 63,676 | - | - | - | 63,676 |
| Student and staff support. | 211,516 | - | - | - | 211,516 |
| Capital improvements | - | - | - | 372,574 | 372,574 |
| Other purposes. | 10,112 | - | - | - | 10,112 |
| Unassigned | 3,728,573 | - | - | - | 3,728,573 |
| Total fund cash balances. | <u>\$ 4,303,938</u> | <u>\$ 1,241,605</u> | <u>\$ 893,045</u> | <u>\$ 901,126</u> | <u>\$ 7,339,714</u> |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**HOPEWELL-LOUDON LOCAL SCHOOL DISTRICT
SENECA COUNTY, OHIO**

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET POSITION OF GOVERNMENTAL ACTIVITIES - CASH BASIS
JUNE 30, 2016

| | |
|---|----------------------------|
| Total governmental fund cash balances | \$ 7,339,714 |
| <i>Amounts reported for governmental activities on the statement of net position - cash basis are different because:</i> | |
| 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 on the statement of net position - cash basis. | <u>281,469</u> |
| Net position - cash basis of governmental activities | <u><u>\$ 7,621,183</u></u> |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**HOPEWELL-LOUDON LOCAL SCHOOL DISTRICT
SENECA COUNTY, OHIO**

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN FUND BALANCES - CASH BASIS
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

| | General | Bond Retirement | Building | Nonmajor Governmental Funds | Total Governmental Funds |
|---|---------------------|----------------------------|-------------------|--|---|
| Cash receipts: | | | | | |
| From local sources: | | | | | |
| Property taxes | \$ 3,024,050 | \$ 508,261 | \$ - | \$ - | \$ 3,532,311 |
| Income taxes | 443,921 | - | - | - | 443,921 |
| Tuition | 1,543,617 | - | - | - | 1,543,617 |
| Earnings on investments | 22,622 | - | - | - | 22,622 |
| Charges for services | - | - | - | 182,578 | 182,578 |
| Extracurricular | 29,195 | - | - | 215,890 | 245,085 |
| Classroom materials and fees | 43,610 | - | - | - | 43,610 |
| Rental income | 7,433 | - | - | - | 7,433 |
| Contributions and donations | 6,516 | - | - | 2,700 | 9,216 |
| Other local receipts | 86,596 | - | - | 12,470 | 99,066 |
| Intergovernmental - state | 3,448,379 | 65,572 | - | 8,938 | 3,522,889 |
| Intergovernmental - federal | - | 548,203 | - | 375,263 | 923,466 |
| Total cash receipts | 8,655,939 | 1,122,036 | - | 797,839 | 10,575,814 |
| Cash disbursements: | | | | | |
| Current: | | | | | |
| Instruction: | | | | | |
| Regular | 4,294,381 | - | - | 21,909 | 4,316,290 |
| Special | 989,088 | - | - | 181,379 | 1,170,467 |
| Vocational | 7,762 | - | - | - | 7,762 |
| Other | 1,942 | - | - | - | 1,942 |
| Support services: | | | | | |
| Pupil | 275,822 | - | - | 55,000 | 330,822 |
| Instructional staff | 195,839 | - | - | 1,800 | 197,639 |
| Board of education | 16,362 | - | - | - | 16,362 |
| Administration | 509,151 | - | - | 1,962 | 511,113 |
| Fiscal | 288,390 | 11,436 | - | - | 299,826 |
| Operations and maintenance | 730,127 | - | - | 135,472 | 865,599 |
| Pupil transportation | 235,888 | - | - | 14,473 | 250,361 |
| Central | 19,538 | - | - | - | 19,538 |
| Operation of non-instructional services: | | | | | |
| Food service operations | - | - | - | 327,872 | 327,872 |
| Extracurricular activities | 255,068 | - | - | 167,578 | 422,646 |
| Facilities acquisition and construction | - | - | 63,477 | - | 63,477 |
| Debt service: | | | | | |
| Principal retirement | - | 376,000 | - | - | 376,000 |
| Interest and fiscal charges | - | 502,046 | - | - | 502,046 |
| Total cash disbursements | 7,819,358 | 889,482 | 63,477 | 907,445 | 9,679,762 |
| Excess (deficiency) of cash receipts over (under) cash disbursements | 836,581 | 232,554 | (63,477) | (109,606) | 896,052 |
| Other financing sources (uses): | | | | | |
| Transfers in | - | 145,657 | - | 8,995 | 154,652 |
| Transfers (out) | (145,657) | - | (8,995) | - | (154,652) |
| Advances in | 100,000 | - | - | 100,000 | 200,000 |
| Advances (out) | (100,000) | - | - | (100,000) | (200,000) |
| Total other financing sources (uses) | (145,657) | 145,657 | (8,995) | 8,995 | - |
| Net change in fund cash balances | 690,924 | 378,211 | (72,472) | (100,611) | 896,052 |
| Fund cash balances at beginning of year | 3,613,014 | 863,394 | 965,517 | 1,001,737 | 6,443,662 |
| Fund cash balances at end of year | \$ 4,303,938 | \$ 1,241,605 | \$ 893,045 | \$ 901,126 | \$ 7,339,714 |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**HOPEWELL-LOUDON LOCAL SCHOOL DISTRICT
SENECA COUNTY, OHIO**

RECONCILIATION OF THE STATEMENT OF RECEIPTS, DISBURSEMENTS
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES - CASH BASIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

| | |
|---|--------------------------|
| Net change in fund balances - cash basis - total governmental funds | \$ 896,052 |
| <i>Amounts reported for governmental activities in the statement of activities - cash basis are different because:</i> | |
| An internal service fund for self-insurance is not reported in the district- wide statement of activities - cash basis. Governmental fund cash disbursements and the related internal service fund cash receipts are eliminated. The net cash receipts (cash disbursements) of the internal service fund are allocated among the governmental activities. | <u>90,921</u> |
| Change in net cash position of governmental activities | <u><u>\$ 986,973</u></u> |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**HOPEWELL-LOUDON LOCAL SCHOOL DISTRICT
SENECA COUNTY, OHIO**

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGE IN FUND BALANCE
BUDGET AND ACTUAL - BUDGET BASIS
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

| | <u>Budgeted Amounts</u> | | <u>Actual</u> | Variance with Final Budget Positive (Negative) |
|--|-------------------------|---------------------|---------------------|---|
| | <u>Original</u> | <u>Final</u> | | |
| Budgetary basis receipts: | | | | |
| From local sources: | | | | |
| Property taxes | \$ 2,900,000 | \$ 2,900,000 | \$ 3,024,050 | \$ 124,050 |
| Income taxes. | 455,000 | 455,000 | 443,921 | (11,079) |
| Tuition. | 1,592,000 | 1,592,000 | 1,543,618 | (48,382) |
| Earnings on investments | 15,000 | 15,000 | 22,622 | 7,622 |
| Classroom materials and fees | 41,700 | 41,700 | 38,491 | (3,209) |
| Rental income | 2,000 | 2,000 | 7,433 | 5,433 |
| Other local receipts | 78,000 | 78,000 | 85,914 | 7,914 |
| Intergovernmental - state | 2,853,500 | 2,853,500 | 3,448,379 | 594,879 |
| Total budgetary basis receipts. | <u>7,937,200</u> | <u>7,937,200</u> | <u>8,614,428</u> | <u>677,228</u> |
| Budgetary basis disbursements: | | | | |
| Current: | | | | |
| Instruction: | | | | |
| Regular | 4,444,707 | 4,245,115 | 4,324,059 | (78,944) |
| Special. | 1,016,685 | 1,039,489 | 989,088 | 50,401 |
| Vocational. | 37,358 | 32,245 | 36,344 | (4,099) |
| Other. | 1,996 | 3,331 | 1,942 | 1,389 |
| Support services: | | | | |
| Pupil. | 283,518 | 251,955 | 275,822 | (23,867) |
| Instructional staff | 201,308 | 198,822 | 195,844 | 2,978 |
| Board of education | 35,654 | 39,096 | 34,686 | 4,410 |
| Administration. | 523,460 | 529,435 | 509,251 | 20,184 |
| Fiscal | 303,963 | 316,490 | 295,712 | 20,778 |
| Operations and maintenance. | 894,180 | 698,065 | 869,908 | (171,843) |
| Pupil transportation | 254,959 | 287,406 | 248,038 | 39,368 |
| Central. | 20,083 | 29,000 | 19,538 | 9,462 |
| Extracurricular activities. | 212,978 | 201,999 | 207,197 | (5,198) |
| Total budgetary basis disbursements. | <u>8,230,849</u> | <u>7,872,448</u> | <u>8,007,429</u> | <u>(134,981)</u> |
| Excess (deficiency) of budgetary basis receipts over (under) budgetary basis disbursements. | <u>(293,649)</u> | <u>64,752</u> | <u>606,999</u> | <u>542,247</u> |
| Other financing sources (uses): | | | | |
| Transfers (out). | (149,721) | (600,000) | (145,657) | 454,343 |
| Advances in. | 100,000 | 100,000 | 100,000 | - |
| Advances (out) | - | - | (100,000) | (100,000) |
| Total other financing sources (uses) | <u>(49,721)</u> | <u>(500,000)</u> | <u>(145,657)</u> | <u>354,343</u> |
| Net change in fund cash balance | (343,370) | (435,248) | 461,342 | 896,590 |
| Fund cash balance at beginning of year | 3,249,650 | 3,249,650 | 3,249,650 | - |
| Prior year encumbrances appropriated | 17,581 | 17,581 | 17,581 | - |
| Fund cash balance at end of year | <u>\$ 2,923,861</u> | <u>\$ 2,831,983</u> | <u>\$ 3,728,573</u> | <u>\$ 896,590</u> |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**HOPEWELL-LOUDON LOCAL SCHOOL DISTRICT
SENECA COUNTY, OHIO**

STATEMENT OF NET POSITION - CASH BASIS
PROPRIETARY FUND
JUNE 30, 2016

| | <u>Governmental Activities - Internal Service Fund</u> |
|---------------------------------------|---|
| Assets: | |
| Equity in pooled cash | |
| and investments | \$ 68,786 |
| Cash with fiscal agent | <u>212,683</u> |
| Total assets. | <u>281,469</u> |
| Net cash position: | |
| Unrestricted. | <u>281,469</u> |
| Total net cash position | <u><u>\$ 281,469</u></u> |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**HOPEWELL-LOUDON LOCAL SCHOOL DISTRICT
SENECA COUNTY, OHIO**

STATEMENT OF RECEIPTS, DISBURSEMENTS AND
CHANGES IN NET POSITION - CASH BASIS
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

| | <u>Governmental Activities - Internal Service Fund</u> |
|---|---|
| Operating cash receipts: | |
| Charges for services | \$ 941,672 |
| Operating cash disbursements: | |
| Purchased services. | 310,478 |
| Claims | 541,632 |
| Total operating cash disbursements | <u>852,110</u> |
| Operating income. | <u>89,562</u> |
| Nonoperating cash receipts: | |
| Earnings on investments | <u>1,359</u> |
| Change in net cash position | 90,921 |
| Net cash position at beginning of year. . | <u>190,548</u> |
| Net cash position at end of year | <u><u>\$ 281,469</u></u> |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**HOPEWELL-LOUDON LOCAL SCHOOL DISTRICT
SENECA COUNTY, OHIO**

STATEMENT OF FIDUCIARY NET POSITION - CASH BASIS
FIDUCIARY FUNDS
JUNE 30, 2016

| | Private-Purpose Trust | |
|--|----------------------------------|---------------|
| | Scholarship | Agency |
| Assets: | | |
| Equity in pooled cash and investments | \$ 28,163 | \$ 89,643 |
| Total assets. | \$ 28,163 | \$ 89,643 |
| Net cash position: | | |
| Due to students | \$ - | \$ 79,007 |
| Due to others | - | 10,636 |
| Held in trust for scholarships | 28,163 | - |
| Total net cash position | \$ 28,163 | \$ 89,643 |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**HOPEWELL-LOUDON LOCAL SCHOOL DISTRICT
SENECA COUNTY, OHIO**

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION - CASH BASIS
FIDUCIARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

| | Private-Purpose Trust |
|--|----------------------------------|
| | Scholarship |
| Additions: | |
| Gifts and contributions. | \$ 971 |
| Deductions: | |
| Scholarships awarded | 3,284 |
| Change in net cash position. | (2,313) |
| Net cash position at beginning of year. . . | 30,476 |
| Net cash position at end of year | \$ 28,163 |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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**HOPEWELL-LOUDON LOCAL SCHOOL DISTRICT
SENECA COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

NOTE 1 - THE REPORTING ENTITY

The Hopewell-Loudon Local School District (the "District"), Seneca County, is a local school district as defined by Section 3311.03 of the Ohio Revised Code. The District operates under an elected Board of Education and is responsible for providing public education to the residents of the District.

The District operates one instructional facility and provides educational services to students from grades K-12. The District is staffed by 26 non-certified employees, 51 certified employees, and 5 administrators who provide services to 834 students.

The District's management believes these basic financial statements present all activities for which the District is accountable.

A. Primary Government

The primary government of the District consists of all funds, departments, boards, and agencies that are not legally separate from the District. For the District, this includes general operations, food service, and student related activities of the District.

B. Component Units

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; or (3) the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or (4) 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. Certain organizations are also included as component units if the nature and significance of the relationship between the primary government and the organization is such that exclusion by the primary government would render the primary government's financial statements incomplete or misleading. Based upon the application of these criteria, the District has no component units.

C. Other Organizations

The basic financial statements of the reporting entity include only those of the District (the primary government). The following organizations are described due to their relationship to the District:

JOINTLY GOVERNED ORGANIZATION

Northern Ohio Educational Computer Association (NOECA)

The District is a participant in NOECA, which is a computer consortium. NOECA is an association of forty-one public school districts formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. The NOECA Board of Directors consists of two representatives from each county in which participating school districts are located, the chairman of each of the operating committees, and a representative from the fiscal agent. Financial information can be obtained from Betty Schwiefert, who serves as Controller, at 1210 East Bogart Road, Sandusky, Ohio 44870.

**HOPEWELL-LOUDON LOCAL SCHOOL DISTRICT
SENECA COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

NOTE 1 - THE REPORTING ENTITY - (Continued)

PUBLIC ENTITY RISK POOL

Ohio School Boards Association Workers' Compensation Group Rating Program

The District participates in a group rating program for workers' compensation as established in Section 4123.29 of the Ohio Revised Code. The Ohio School Boards Association (OSBA) Workers' Compensation Group Rating Program (GRP) was established as an insurance purchasing pool. The GRP is governed by a three-member Board of Directors. The Executive Director of the OSBA, or his designee, serves as the 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 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

As discussed in Note 2.A, 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, which have been applied to the extent they are applicable to the cash basis of accounting. 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. Following are the more significant of the District's accounting policies.

A. Basis of Accounting

Although required by Ohio Administrative Code § 117-2-03(B) to prepare its annual financial report in accordance with GAAP, the District chooses to prepare its financial statements and notes on 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.

Budgetary presentations report budgetary cash disbursements when a commitment is made (i.e. when an encumbrance is approved). The difference between disbursements reported in the fund and government-wide statements and disbursements reported in the budgetary statements is due to current year encumbrances being added to disbursements reported in the budgetary statements.

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

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 a self balancing set of accounts. There are three categories of funds: governmental, proprietary, and fiduciary.

GOVERNMENTAL FUNDS

Governmental funds are those through which most governmental functions typically are financed. The following are the District's major governmental funds:

General fund - The general fund is used to account for and report all financial resources not accounted for and reported in another fund. The general fund cash balance is available for any purpose provided it is disbursed or transferred according to the general laws of Ohio.

**HOPEWELL-LOUDON LOCAL SCHOOL DISTRICT
SENECA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

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

Bond retirement fund - The bond retirement fund is used to account for the accumulation of resources restricted for the payment of general obligation bond and note principal, interest, and related costs.

Building fund - The building fund is used to account for receipts and disbursements related to the District's locally funded initiative (LFI) intended for capital improvements of District facilities.

Other governmental funds of the District are used to account for (a) financial resources that are restricted, committed, or assigned to disbursements for capital outlays including the acquisition or construction of capital facilities and other capital assets and (b) specific receipt sources that are restricted or committed to a disbursement for specified purposes other than debt service or capital projects.

PROPRIETARY FUND

Proprietary funds are used to account for the District's ongoing activities which are similar to those often found in the private sector. The District has no enterprise funds. The following is a description of the District's internal service fund:

Internal service fund - The internal service fund is used to account for the financing of goods or 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 medical, dental, life, and vision benefits to employees.

FIDUCIARY FUNDS

Fiduciary fund reporting focuses on net cash position and changes in net cash position. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to account for cash 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 and do not involve measurement of results of operations. The District's only trust fund is a private-purpose trust fund that accounts for scholarship programs. The District's agency fund activity is reported in a single column on the basic financial statements.

C. Basis of Presentation

Government-wide Financial Statements - The statement of net position cash basis and the statement of activities cash basis 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 operating activity is eliminated to avoid overstatement of receipts and disbursements.

The government-wide statement of activities cash basis compares disbursements with program receipts for each function or program of the District's governmental activities. These disbursements are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program receipts include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Receipts which are not classified as program receipts are presented as general receipts of the District. The comparison of direct disbursements with program receipts identifies the extent to which each business segment or governmental function is self-financing on the cash basis or draws from the general receipts of the District.

**HOPEWELL-LOUDON LOCAL SCHOOL DISTRICT
SENECA COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

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

All assets and net cash position associated with the operation of the District are included on the statement of net position cash basis.

Fund Financial Statements - Fund financial statements report detailed information about the District. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column, and all nonmajor funds are aggregated into one column. The internal service fund is presented in a single column on the face of the proprietary fund statements. Fiduciary funds are reported by fund type.

D. Budgetary Process

All funds, except agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriations resolution, all of 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 amount the Board of Education may appropriate. The appropriations resolution is the Board's authorization to spend resources and sets annual limits on cash disbursements plus encumbrances at the level of control selected by the Board. The legal level of budgetary control selected by the Board is at the fund level. Any budgetary modifications at this level may only be made by the Board of Education.

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

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

E. Cash and Investments

To improve cash management, cash received by the District is pooled in a central bank account. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through the District's records. Each fund's interest in the pool is presented as "equity in pooled cash and investments" on the basic financial statements.

During fiscal year 2016, investments were limited to investments in the State Treasury Asset Reserve of Ohio (STAR Ohio), nonnegotiable certificates of deposit, and negotiable certificates of deposit. In accordance with the cash basis of accounting, all District investments are reported at cost.

The District has invested funds in STAR Ohio during fiscal year 2016. STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's shares price which is the price the investment could be sold for on June 30, 2016.

**HOPEWELL-LOUDON LOCAL SCHOOL DISTRICT
SENECA COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

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

Under existing Ohio statutes, all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund. By policy of the Board of Education, investment earnings are assigned to the fund from which the investment was made. Interest receipts credited to the general fund during fiscal year 2016 amounted to \$22,622, which includes \$7,808 assigned from other funds.

For presentation on the basic financial statements, 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 considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

An analysis of the District's investment account at fiscal year-end is provided in Note 5.

F. Inventory and Prepaid Items

The District reports cash disbursements for inventory and prepaid items when paid. These items are not reflected as assets in the accompanying financial statements.

G. Capital Assets

Acquisition of property, plant, and equipment purchased are recorded as cash disbursements when paid. These items are not reflected as assets in the accompanying financial statements under the cash basis of accounting. Depreciation has not been reported for any capital assets.

H. Accumulated Leave

Employees are entitled to cash payments for unused vacation leave and sick leave in certain circumstances, such as upon leaving employment. Unpaid vacation leave and sick leave are not reflected as liabilities under the cash basis of accounting.

I. Pensions

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

J. Employer Contributions to Cost-Sharing Pension Plans

The District recognizes the cash disbursements for employer contributions to cost-sharing pension plans when they are paid. As described in Notes 11 and 12, the employer contributions include portions for pension benefits and for postemployment healthcare.

K. Long-Term Obligations

Bonds, loans, capital leases, and other long-term obligations are not recognized as liabilities in the financial statements under the cash basis of accounting. These statements report proceeds of debt when cash is received, and debt service disbursements for principal and interest payments, bond issuance costs, and payments to refunded bond escrow agent.

**HOPEWELL-LOUDON LOCAL SCHOOL DISTRICT
SENECA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

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

L. Fund Cash Balance

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

Nonspendable - The nonspendable fund cash balance classification includes amounts that cannot be spent because they are not in spendable form or legally required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash.

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

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

Assigned - Amounts in the assigned fund cash balance classification are intended to be used by the District for specific purposes, but do not meet the criteria to be classified as restricted nor committed. In governmental funds other than the general fund, assigned fund cash balance represents the remaining amount that is not restricted or committed. In the general fund, assigned amounts represent intended uses established by policies of the District Board of Education, which includes giving the Treasurer the authority to constrain monies for intended purposes.

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

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

M. Net Cash Position

Net cash position is reported as restricted when there are limitations imposed on its use either through 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 incurred for purposes for which both restricted and unrestricted net cash position is available.

**HOPEWELL-LOUDON LOCAL SCHOOL DISTRICT
SENECA COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

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

N. Interfund Balances

On the fund financial statements, the District reports advances in and advances out for interfund loans. These items are not reflected as assets and liabilities in the accompanying fund financial statements under the cash basis of accounting. Advances are eliminated in the statement of activities.

O. Interfund Activity

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 fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating receipts/disbursements in the proprietary funds. Repayments from funds responsible for particular disbursements to the funds that initially paid for them are not presented on the basic financial statements. Interfund transfers between governmental funds are eliminated in the statement of activities.

P. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. The District did not have any extraordinary or special items during fiscal year 2016.

Q. Pensions

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

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principles

For fiscal year 2016, the District has implemented GASB Statement No. 72, "*Fair Value Measurement and Application*", GASB Statement No. 73 "*Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*", GASB Statement No. 76, "*The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*", and GASB Statement No. 79, "*Certain External Investment Pools and Pool Participants*".

GASB Statement No. 72 addresses accounting and financial reporting issues related to fair value measurement. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The implementation of GASB Statement No. 72 did not have an effect on the financial statements of the District.

GASB Statement No. 73 improves the usefulness of information about pensions included in the general purposes external financial reports of state and local governments for making decisions and assessing accountability. The implementation of GASB Statement No. 73 did not have an effect on the financial statements of the District.

**HOPEWELL-LOUDON LOCAL SCHOOL DISTRICT
SENECA COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

GASB Statement No. 76 identifies - in the context of the current governmental financial reporting environment - the hierarchy of generally accepted accounting principles (GAAP). This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. The implementation of GASB Statement No. 76 did not have an effect on the financial statements of the District.

GASB Statement No. 79 establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. The implementation of GASB Statement No. 79 did not have an effect on the financial statements 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 generally accepted accounting principles. 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, deferred outflows of resources, liabilities, deferred inflows of resources, 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 a basis of cash receipts, disbursements, and encumbrances. The statement of cash receipts, disbursements and change in fund balance - budget and actual - budget basis presented for the general fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The difference between the budget basis and the cash basis is outstanding year end encumbrances are treated as disbursements (budget) rather than a reservation of fund cash balance (cash).

The adjustments necessary to convert the results of operations for the year on the budget basis to the cash basis for the general fund is as follows:

| Net Change in Fund Cash Balance | |
|--|---------------------|
| | <u>General fund</u> |
| Budget basis | \$ 461,342 |
| Funds budgeted elsewhere | (11,775) |
| Adjustment for encumbrances | <u>241,357</u> |
| Cash basis | <u>\$ 690,924</u> |

Certain funds that are legally budgeted in separate fund classifications are considered part of the general fund on a cash basis. This includes the uniform school supplies fund, the public school fund, and the termination benefits fund.

**HOPEWELL-LOUDON LOCAL SCHOOL DISTRICT
SENECA COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

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

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

Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts including passbook accounts.

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 market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio, or legal governments;
5. No-load money market mutual funds consisting exclusively of obligations described in items (1) and (2) above 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 (STAR Ohio);
7. Certain banker's acceptance and commercial paper notes for a period not to exceed one hundred eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest classifications by at least two nationally recognized rating agencies.

**HOPEWELL-LOUDON LOCAL SCHOOL DISTRICT
SENECA COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

NOTE 5 - DEPOSITS AND INVESTMENTS - (Continued)

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, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

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.

A. Cash on Hand

At June 30, 2017, the District had \$32,400 in undeposited cash on hand, which is included on the financial statements of the District as part of "equity in pooled cash and cash equivalents".

B. Cash with Fiscal Agent

The District is self-insured through a fiscal agent. The money held by the fiscal agent cannot be identified as an investment or deposit, since it is held in a pool made up of numerous participants. The amount held by the fiscal agent at June 30, 2016 was \$212,683.

C. Deposits with Financial Institutions

At June 30, 2016, the carrying amount of all District deposits was \$861,225. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2016, \$640,121 of the District's bank balance of \$1,090,121 was exposed to custodial credit risk as discussed below, while \$450,000 was covered by the FDIC.

Custodial credit risk is the risk that, in the event of bank failure, the District's deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. 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. The District has no deposit policy for custodial credit risk beyond the requirements of State statute. Although the securities were held by the pledging institutions' trust department and 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 FDIC.

**HOPEWELL-LOUDON LOCAL SCHOOL DISTRICT
SENECA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 5 - DEPOSITS AND INVESTMENTS - (Continued)

D. Investments

As of June 30, 2016, the District had the following investments and maturities:

| <u>Measurement/ Investment Type</u> | <u>Fair Value</u> | <u>Maturity 6 Months or Less</u> |
|---|---------------------|--|
| Negotiable CD's | \$ 400,000 | \$ 400,000 |
| STAR Ohio | <u>6,232,681</u> | <u>6,232,681</u> |
| Total | <u>\$ 6,632,681</u> | <u>\$ 6,632,681</u> |

The weighted average maturity of investments is 0.02 years.

Interest Rate Risk: Interest rate risk arises when potential purchasers of debt securities will not agree to pay face value for those securities if interest rates subsequently increase. As a means of limiting its exposure to fair value losses arising from rising interest rates and according to State law, the District's investment policy limits investment portfolio maturities to five years or less.

Credit Risk: STAR Ohio carries a rating of AAAM by Standard & Poor's. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service. The District's investment policy does not address credit risk beyond the requirements of State statutes.

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

Concentration of Credit Risk: The District places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the District at June 30, 2016:

| <u>Investment Type</u> | <u>Carrying Value</u> | <u>% to Total</u> |
|------------------------|-----------------------|-------------------|
| Negotiable CD's | \$ 400,000 | 6.03 |
| STAR Ohio | <u>6,232,681</u> | <u>93.97</u> |
| Total | <u>\$ 6,632,681</u> | <u>100.00</u> |

E. Reconciliation of Cash and Investments to the Statement of Net Position

The following is a reconciliation of cash and investments as reported in the note disclosure above to cash and investments as reported on the statement of net position as of June 30, 2016:

| | |
|---|---------------------|
| <u>Cash and investments per note disclosure</u> | |
| Carrying amount of deposits | \$ 861,225 |
| Cash with fiscal agent | 212,683 |
| Investments | 6,632,681 |
| Cash on hand | <u>32,400</u> |
| Total | <u>\$ 7,738,989</u> |

**HOPEWELL-LOUDON LOCAL SCHOOL DISTRICT
SENECA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 5 - DEPOSITS AND INVESTMENTS - (Continued)

| <u>Cash and investments per statement of net position</u> | |
|---|---------------------|
| Governmental activities | \$ 7,621,183 |
| Private-purpose trust fund | 28,163 |
| Agency fund | <u>89,643</u> |
| Total | <u>\$ 7,738,989</u> |

NOTE 6- INTERFUND TRANSACTIONS

- A.** Advances in and advances out during fiscal year 2016 consisted of the following, as reported on the fund financial statements:

| <u>Advances In</u> | <u>Advances Out</u> | <u>Amount</u> |
|-----------------------------|-----------------------------|-------------------|
| Nonmajor governmental funds | General fund | \$ 100,000 |
| General fund | Nonmajor governmental funds | <u>100,000</u> |
| Total | | <u>\$ 200,000</u> |

The primary purpose of the advances is to cover costs in specific funds where cash receipts were not received by June 30. Advances are repaid once the anticipated cash receipts are received.

Advances between governmental funds are eliminated on the government-wide financial statements; therefore, no advances are reported in the statement of activities.

- B.** Interfund transfers during fiscal year 2016 consisted of the following, as reported on the fund financial statements:

| | |
|---|-------------------|
| <u>Transfers from General fund to:</u> | <u>Amount</u> |
| Bond retirement fund | \$ 145,657 |
| <u>Transfers from Building fund to:</u> | |
| Nonmajor governmental funds | <u>8,995</u> |
| Total | <u>\$ 154,652</u> |

Transfers are used to (1) move cash receipts from the fund that statute or budget requires to collect them to the fund that statute or budget requires to disburse them, and (2) to use unrestricted cash receipts collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

Interfund transfers between governmental funds are eliminated on the government-wide financial statements; therefore, no transfers are reported in the statement of activities.

**HOPEWELL-LOUDON LOCAL SCHOOL DISTRICT
SENECA COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

NOTE 7 - 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 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 property and public utility property. Real property tax receipts received in calendar year 2016 represent the collection of calendar year 2015 taxes. Real property taxes received in calendar year 2016 were levied after April 1, 2015, on the assessed values as of January 1, 2015, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, 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 receipts received in calendar year 2016 represent the collection of calendar year 2015 taxes. Public utility real and personal property taxes received in calendar year 2016 became a lien on December 31, 2014, were levied after April 1, 2015, and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

The District receives property taxes from Seneca County. The County Auditor periodically advances to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2016, are available to finance fiscal year 2016 operations. The amount of second-half real property taxes available for advance at fiscal year-end can vary based on the date the tax bills are sent.

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

| | 2015 Second Half Collections | | 2016 First Half Collections | |
|---|---------------------------------|----------------|--------------------------------|----------------|
| | <u>Amount</u> | <u>Percent</u> | <u>Amount</u> | <u>Percent</u> |
| Agricultural/residential and other real estate | \$ 127,267,480 | 96.14 | \$ 127,685,040 | 95.99 |
| Public utility personal | <u>5,107,110</u> | <u>3.86</u> | <u>5,339,630</u> | <u>4.01</u> |
| Total | <u>\$ 132,374,590</u> | <u>100.00</u> | <u>\$ 133,024,670</u> | <u>100.00</u> |
| Tax rate per \$1,000 of assessed valuation | \$43.71 | | \$40.79 | |

NOTE 8 - SCHOOL DISTRICT INCOME TAX

The District levies a voted tax of one half of one percent (0.50%) for general operations on the income of residents and of estates. Employers of residents are required to withhold income tax on compensation 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 are credited to the general fund. Total income tax cash receipts for fiscal year 2016 equaled \$443,921.

**HOPEWELL-LOUDON LOCAL SCHOOL DISTRICT
SENECA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 9 - LONG-TERM OBLIGATIONS

A. During fiscal year 2016, the following activity occurred in governmental activities long-term obligations:

| | Balance Outstanding <u>July 1, 2015</u> | <u>Additions</u> | <u>Reductions</u> | Balance Outstanding <u>June 30, 2016</u> | Amounts Due in <u>One Year</u> |
|---|---|------------------|---------------------|--|--------------------------------------|
| Governmental Activities: | | | | | |
| Series 2010 OSFC Bonds | \$ 5,215,000 | \$ - | \$ (45,000) | \$ 5,170,000 | \$ 55,000 |
| Series 2010 Qualified School Construction Bonds | <u>9,753,000</u> | <u>-</u> | <u>(331,000)</u> | <u>9,422,000</u> | <u>335,000</u> |
| Total Long-term Obligations, Governmental Activities | <u>\$ 14,968,000</u> | <u>\$ -</u> | <u>\$ (376,000)</u> | <u>\$ 14,592,000</u> | <u>\$ 390,000</u> |

Series 2010 Ohio School Facilities Construction Bonds - Tax Exempt and Build America Bonds (TEB and BAB): On September 14, 2010, the District issued \$1,005,000 in Series 2010A Tax Exempt Bonds and \$4,355,000 in Series 2010B Build America Bonds for the purpose of constructing new classroom facilities. Semi-annual interest payments are due at an average interest rate of 5.53% per annum, and varying principal payments are due annually on November 1, with a final maturity date of November 1, 2039. The federal government will subsidize 35% of the debt service of the Build America Bonds. No assets were pledged to secure these bonds.

Series 2010 Qualified School Construction Bonds (QSCB): On August 26, 2010, the District issued \$6,300,000 of School Facilities Construction and Improvement Bonds, Series 2010A, and on September 14, 2010, issued \$4,675,000 of School Facilities Construction and Improvement Bonds, Series 2010B and 2010C. Both issuances were for the purpose of constructing new classroom facilities. Quarterly interest payments are due at an average interest rate of 5.62% per annum through November 1, 2027, at which time they become semi-annual, and varying principal payments are due annually with a final maturity date of November 1, 2047. The federal government will subsidize approximately 32% of the debt service of these bonds. No assets were pledged to secure these bonds.

Principal and interest requirements to retire the long-term obligations at June 30, 2016 are as follows:

| Fiscal Year Ending <u>June 30,</u> | <u>Series 2010 OSFC Bonds</u> | | | <u>Series 2010 QSCB</u> | | |
|---------------------------------------|-------------------------------|---------------------|----------------------|-------------------------|----------------------|----------------------|
| | <u>Principal</u> | <u>Interest</u> | <u>Total</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
| 2017 | \$ 55,000 | \$ 291,819 | \$ 346,819 | \$ 335,000 | \$ 618,061 | \$ 953,061 |
| 2018 | 60,000 | 290,307 | 350,307 | 339,000 | 618,061 | 957,061 |
| 2019 | 70,000 | 288,485 | 358,485 | 355,000 | 618,061 | 973,061 |
| 2020 | 85,000 | 286,169 | 371,169 | 371,000 | 618,061 | 989,061 |
| 2021 | 90,000 | 283,390 | 373,390 | 383,000 | 618,061 | 1,001,061 |
| 2022 - 2026 | 600,000 | 1,357,793 | 1,957,793 | 2,068,000 | 3,090,305 | 5,158,305 |
| 2027 - 2031 | 955,000 | 1,150,607 | 2,105,607 | 1,186,000 | 2,843,380 | 4,029,380 |
| 2032 - 2036 | 1,505,000 | 790,372 | 2,295,372 | 890,000 | 1,201,003 | 2,091,003 |
| 2037 - 2041 | 1,750,000 | 223,189 | 1,973,189 | 1,235,000 | 889,570 | 2,124,570 |
| 2042 - 2046 | - | - | - | 1,545,000 | 468,118 | 2,013,118 |
| 2047 - 2048 | - | - | - | <u>715,000</u> | <u>44,722</u> | <u>759,722</u> |
| Total | <u>\$ 5,170,000</u> | <u>\$ 4,962,131</u> | <u>\$ 10,132,131</u> | <u>\$ 9,422,000</u> | <u>\$ 11,627,403</u> | <u>\$ 21,049,403</u> |

**HOPEWELL-LOUDON LOCAL SCHOOL DISTRICT
SENECA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 9 - LONG-TERM OBLIGATIONS - (Continued)

B. Legal Debt Margin

The Ohio Revised Code provides that voted net general obligation debt of the District shall never exceed 9% of the total assessed valuation of the District. The Code further provides that unvoted indebtedness shall not exceed 1/10 of 1% of the property valuation of the District. The Code additionally states that unvoted indebtedness related to energy conservation debt shall not exceed 9/10 of 1% of the property valuation of the District. The assessed valuation use in determining the District’s legal debt margin has been modified by House Bill 530 which became effective March 30, 2006. In accordance with House Bill 530, the assessed valuation used in the District’s legal debt margin calculation excluded tangible personal property used in business, telephone or telegraph property, interexchange telecommunications company property, and personal property owned or leased by a railroad company and used in railroad operations.

The Ohio Revised Code further provides that when a Board of Education declares a resolution that the student population is not adequately served by existing facilities, and that insufficient capacity exists within the 9% limit to finance additional facilities, the State Department of Education may declare that district a “special needs” district. This permits the incurrence of additional debt based upon projected five-year growth of the school district’s assessed valuation. The District was determined to be a “special needs” district by the State Superintendent.

NOTE 10 - RISK MANAGEMENT

A. Commercial Insurance

The District has obtained commercial insurance for comprehensive property and general liability, vehicles, and errors and omissions.

B. Self-Insurance

The District is self-insured for dental and vision benefits to employees. The District established a self-insurance internal service fund to account for and finance the dental and vision benefits program. Under the program, the self-insurance fund provides coverage up to a maximum of \$1,000 per individual, per year for dental insurance, and various limits of coverage per individual, per year for vision insurance based on the services provided. The District reimburses the individuals for dental and vision services received up to their maximum limits.

A comparison of self-insurance fund cash and investments to the actuary-measured liability as of June 30, 2016 and June 30, 2015 are as follows:

| | <u>2016</u> | | <u>2015</u> |
|-----------------------|-------------|--|-------------|
| Cash and investments | \$ 68,786 | | \$ 68,501 |
| Actuarial liabilities | n/a | | 5,417 |

C. Health and Life Insurance Programs

The District is a member of the The Jefferson Health Plan (formerly known as the Ohio Mid-Eastern Regional Education Service Agency Health Benefit Plan) for its self-insured health and life insurance programs. The Jefferson Health Plan provides jointly administrated benefit programs for schools. The Jefferson Health Plan has designated Self-Funded Plans, Inc. of Cleveland as their claims administrator. Interfund rates are charged based on claims approved by the claims administrator.

**HOPEWELL-LOUDON LOCAL SCHOOL DISTRICT
SENECA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 10 - RISK MANAGEMENT – (Continued)

A comparison of self-insurance fund cash and investments to the actuary-measured liability as of June 30, 2016 and June 30, 2015 are as follows:

| | | <u>2016</u> | | <u>2015</u> |
|-----------------------|----|-------------|----|-------------|
| Cash and investments | \$ | 212,683 | \$ | 122,047 |
| Actuarial liabilities | | n/a | | n/a |

NOTE 11 - 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.

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

**HOPEWELL-LOUDON LOCAL SCHOOL DISTRICT
SENECA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 11 - PENSION PLANS - (Continued)

Age and service requirements for retirement are as follows:

| | Eligible to Retire on or before August 1, 2017 * | Eligible to Retire 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, 2016, the allocation to pension, death benefits, and Medicare B was 14 percent. None of the employer contribution rate was allocated to the Health Care Fund.

The District's contractually required contribution to SERS was \$133,058 for fiscal year 2016.

Plan Description - State Teachers Retirement System of Ohio (STRS Ohio)

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 Ohio. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that includes financial statements, required supplementary information and detailed information about STRS Ohio's fiduciary net position. That report can be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio website at www.strsoh.org.

**HOPEWELL-LOUDON LOCAL SCHOOL DISTRICT
SENECA COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

NOTE 11 - 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 is 2.2 percent of final average salary for the five highest years of earnings multiplied by all years of service. With certain exceptions, the basic benefit is increased each year by two percent of the original base benefit. For members retiring August 1, 2013, or later, the first two percent is paid on the fifth anniversary of the retirement benefit. Members are eligible to retire at age 60 with five year of qualifying service credit, or age 55 with 25 years of service, or 30 years of service regardless of age. Age and service requirements for retirement increased effective August 1, 2015, and will continue to increase periodically until they reach age 60 with 35 years of service or age 65 with five year of service on August 1, 2026.

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

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

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

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

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

The District's contractually required contribution to STRS Ohio was \$482,084 for fiscal year 2016.

**HOPEWELL-LOUDON LOCAL SCHOOL DISTRICT
SENECA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 11 - PENSION PLANS - (Continued)

Net Pension Liability

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

| | SERS | STRS Ohio | Total |
|--|--------------|--------------|---------------|
| Proportionate share of the net pension liability | \$ 1,700,457 | \$ 8,613,711 | \$ 10,314,168 |
| Proportion of the net pension liability | 0.0298007% | 0.03116723% | |

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, 2015, are presented below:

| | |
|--|--|
| Wage inflation | 3.25 percent |
| Future salary increases, including inflation | 4.00 percent to 22 percent |
| COLA or ad hoc COLA | 3 percent |
| Investment rate of return | 7.75 percent net of investments expense, including inflation |
| Actuarial cost method | Entry age normal |

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

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

**HOPEWELL-LOUDON LOCAL SCHOOL DISTRICT
SENECA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 11 - PENSION PLANS - (Continued)

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:

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

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

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

| | 1% Decrease (6.75%) | Current Discount Rate (7.75%) | 1% Increase (8.75%) |
|--|------------------------|-------------------------------------|------------------------|
| District's proportionate share of the net pension liability | \$ 2,357,923 | \$ 1,700,457 | \$ 1,146,816 |

**HOPEWELL-LOUDON LOCAL SCHOOL DISTRICT
SENECA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 11 - PENSION PLANS - (Continued)

Actuarial Assumptions - STRS Ohio

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

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

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

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

The 10 year expected real rate of return on pension plan investments was determined by STRS Ohio's 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> | |

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

**HOPEWELL-LOUDON LOCAL SCHOOL DISTRICT
SENECA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 11 - PENSION PLANS - (Continued)

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 | \$ 11,965,094 | \$ 8,613,711 | \$ 5,779,617 |

NOTE 12 - POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

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 45 purposes, this plan is considered a cost-sharing, multiple-employer, defined benefit other postemployment benefit (OPEB) plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's, Medicare Advantage, and traditional indemnity plans as well as a prescription drug program. The financial report of the Plan is included in the SERS Comprehensive Annual Financial Report which can be obtained on SERS' website at www.ohsers.org under Employers/Audit Resources.

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

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required basic benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. For fiscal year 2016, no portion of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. For fiscal year 2016, this amount was \$23,000. 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.

The District's contributions for health care for the fiscal years ended June 30, 2016, 2015, and 2014 were \$15,020, \$21,765, and \$14,493, respectively. 100 percent has been contributed for fiscal years 2016, 2015 and 2014.

**HOPEWELL-LOUDON LOCAL SCHOOL DISTRICT
SENECA COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

NOTE 12 - POSTEMPLOYMENT BENEFITS – (Continued)

B. State Teachers Retirement System of Ohio

Plan Description - The District contributes to the cost sharing, multiple employer defined benefit Health Plan (the “Plan”) administered by the State Teachers Retirement System of Ohio (STRS Ohio) for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS Ohio. Benefits include hospitalization, physicians’ fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. The Plan is included in the report of STRS Ohio which may be obtained by visiting www.strsoh.org, under “Publications” or by calling (888) 227-7877.

Funding Policy - Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2016, STRS Ohio did not allocate any employer contributions to the Health Care Stabilization Fund. The District’s contributions for health care for the fiscal years ended June 30, 2016, 2015 and 2014 were \$0, \$0 and \$33,189, respectively; 100 percent has been contributed for fiscal year 2014.

NOTE 13 - CONTINGENCIES

A. Grants

The District receives significant financial assistance from numerous federal, State and local agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the District. However, in the opinion of management, any such disallowed claims will not have a material effect on the financial position of the District.

B. Litigation

The District is not party to any legal proceedings that would have a material effect, if any, on the financial condition of the District.

**HOPEWELL-LOUDON LOCAL SCHOOL DISTRICT
SENECA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 14 - SET-ASIDES

The District is required by State law to annually set-aside certain general fund cash receipt amounts, as defined by statutory formula, for the acquisition and construction of capital improvements. Amounts not spent by the end of the fiscal year or offset by similarly restricted resources received during the year must be held in cash at fiscal year end. This amount must be carried forward to be used for the same purpose in future years. Disbursements and other applicable offsets exceeding the set-aside requirement may not be carried forward to the next fiscal year.

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

| | <u>Capital Improvements</u> |
|---|---------------------------------|
| Set-aside balance June 30, 2015 | \$ - |
| Current year set-aside requirement | 144,597 |
| Current year offsets | - |
| Prior year offset from debt proceeds | <u>(144,597)</u> |
| Total | <u>\$ -</u> |
| Balance carried forward to fiscal year 2017 | <u>\$ -</u> |
| Set-aside balance June 30, 2016 | <u>\$ -</u> |

During fiscal year 2011, the District issued a total of \$16,335,000 in capital related school improvement bonds. These proceeds may be used to reduce the capital improvements set-aside amount for future years. The amount presented for prior year offset from debt proceeds is limited to an amount needed to reduce the capital improvements set-aside balance to \$0. The District is responsible for tracking the amount of debt proceeds that may be used as an offset in future periods, which was \$15,706,428 at June 30, 2016.

NOTE 15 - COMMITMENTS

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

| | <u>Year End Encumbrances</u> |
|-----------------------------|----------------------------------|
| <u>Fund</u> | |
| General fund | \$ 246,242 |
| Nonmajor governmental funds | <u>53,160</u> |
| Total | <u>\$ 299,402</u> |



Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and other Matters Required by *Government Auditing Standards*

Hopewell-Loudon Local School District
Seneca County
181 North County Road 7, PO Box 400
Bascom, Ohio 44809-0400

Members of the Board of Education:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Hopewell-Loudon Local School District, Seneca County, (the School District) as of and for the years ended June 30, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements and have issued our report thereon dated January 29, 2018 wherein we noted the School District uses a special purpose framework other than generally accepted accounting principles.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

As part of reasonably assuring whether the School District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matters we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2017-001.

Entity's Response to Finding

The School District's response to the finding identified in our audit is described in the accompanying schedule of findings. We did not audit the School District's response and, accordingly, we express no opinion on it.

Purpose of this Report

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

BHM CPA Group

BHM CPA Group Inc.
Piketon, Ohio
January 29, 2018

**HOPEWELL-LOUDON LOCAL SCHOOL DISTRICT
SENECA COUNTY**

**Schedule of Findings
June 30, 2017 and 2016**

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

FINDING NUMBER 2017-001

Material Noncompliance Citation

Ohio Revised Code § 117.38 provides that each public office shall file a financial report for each fiscal year. The Auditor of State may prescribe forms by rule or may issue guidelines, or both, for such reports. If the Auditor of State has not prescribed a rule regarding the form for the report, the public office shall submit its report on the form utilized by the public office. Ohio Administrative Code § 117-2-03 further clarifies the requirements of Ohio Revised Code § 117.38.

Ohio Administrative Code § 117-2-03(B) requires the School District to prepare its annual financial report in accordance with generally accepted accounting principles. The School District prepares its financial statements in accordance with the cash basis of accounting in a report format similar to the requirements of Governmental Accounting Standards Board Statement 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*. This presentation differs from accounting principles generally accepted in the United States of America (GAAP). There would be variances on the financial statements between this accounting practice and GAAP that, while presumably material, cannot be reasonably determined at this time. The School District can be fined and various other administrative remedies may be taken against the School District.

The School District should take the necessary steps to ensure that the financial report is prepared in accordance with generally accepted accounting principles.

Client Response: The decision to prepare cash basis financial statements is a decision the Board of Education believes to be in the best interest of the School District. The Board evaluated the cost-benefit relationship of preparing GAAP statements for the fiscal years ended June 30, 2017 and 2016 and made the decision that the significant dollars saved, outweighed the benefit received.

**HOPEWELL-LOUDON LOCAL SCHOOL DISTRICT
SENECA COUNTY**

**Schedule of Prior Audit Findings
June 30, 2017 and 2016**

| Finding Number | Finding Summary | Fully Corrected? | Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain: |
|-----------------------|--|-------------------------|--|
| 2015-001 | Material Non-Compliance: OAC 117-2-03(B) the District is required to file its annual financial report in accordance with GAAP. | No | Not Corrected. Reissued as finding 2017-001 |

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Dave Yost • Auditor of State

HOPEWELL LOUDON LOCAL SCHOOL DISTRICT

SENECA 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
APRIL 24, 2018