



Dave Yost • Auditor of State



**NORTHERN LOCAL SCHOOL DISTRICT  
PERRY COUNTY**

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NORTHERN LOCAL SCHOOL DISTRICT  
PERRY COUNTY

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# Dave Yost • Auditor of State

## INDEPENDENT AUDITOR'S REPORT

Northern Local School District  
Perry County  
8700 Sheridan Road NW  
Thornville, Ohio 43076

To the Board of Education:

### ***Report on the Financial Statements***

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Northern Local School District, Perry County, Ohio (the District), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for 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 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 District's internal control. Accordingly, we express no 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 the Northern Local School District, Perry County, Ohio, as of June 30, 2015, and the respective changes in cash financial position and the respective budgetary comparison for the General and Straight A Funds thereof for the year then ended in accordance with the accounting basis described in Note 2.

**Accounting Basis**

Ohio Administrative Code § 117-2-03(B) requires the District to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America. We draw attention to Note 2 of the financial statements, which describes the basis applied to these statements. 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.

**Emphasis of Matter**

As discussed in Note 16 to the financial statements, during the year ended June 30, 2015, the District adopted Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* and also GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. We did not modify our opinion regarding this matter.

**Other Matters**

*Supplemental Information*

Our audit was conducted to opine on the financial statements taken as a whole.

The Schedule of Federal Award Receipts and Expenditures (the Schedule) presents additional analysis as required by the U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations and is not a required part of the financial statements.

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

*Other Information*

We applied no procedures to Management's Discussion and Analysis, as listed in the table of contents. Accordingly, we express no opinion or any other assurance on it.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated March 23, 2016, on our consideration of the 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 District's internal control over financial reporting and compliance.

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

**Dave Yost**  
Auditor of State  
Columbus, Ohio

March 23, 2016

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**Northern Local School District, Ohio**  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2015  
(Unaudited)

As management of the Northern Local District (the District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the Northern Local District for the fiscal year ended June 30, 2015. We encourage readers to consider the information presented here in conjunction with the financial statements and the notes to the basic financial statements.

**Financial Highlights**

Key financial highlights for the fiscal year 2015 are as follows:

- Net position of governmental activities decreased approximately \$7.1 million.
- General receipts, consisting primarily of property taxes, state foundation receipts, and proceeds of debt, totaled approximately \$21.8 million, or 69 percent of total receipts, while program receipts, consisting of charges for services and operating grants and contributions, accounted for \$9.7 million, or 31 percent of total receipts.
- The District had \$38.6 million in cash disbursements during the fiscal year. The net cost of providing services (total cash disbursements less program receipts), totaling \$28.9 million, was funded with general receipts.

**Using this Annual Financial Report**

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

The Statement of Net Position and Statement of Activities provide information about the activities of the whole District, and present an aggregate view of the District's 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 non-major funds presented in total in one column.

**Northern Local School District, Ohio**  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2015  
(Unaudited)

***Reporting the District as a Whole***

*Statement of Net Position and the Statement of Activities – Cash Basis*

While these documents contain information about the large number of funds used by the District to provide programs and activities for students, the view of the District as a whole looks at all financial transactions and asks the question, "How did we do financially during the fiscal year?" The Statement of Net Position and the Statement of Activities answer this question. These statements are presented on the cash basis of accounting. This basis of accounting only takes into account the receipts that were received and the disbursements that were paid.

These two statements report the District's net position and changes in net position. This change in net position is important because it tells the reader that, for the District as a whole, the 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.

In the Statement of Net Position and the Statement of Activities, the District's activities are all reported as Governmental.

- Governmental Activities – All of the District's programs and services are reported here including instruction, support services, operation of non-instructional services (primarily food service), extracurricular activities, and debt service.

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

*Fund Financial Statements*

The analysis of the District's major 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 multiple 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, bond retirement fund, and the Straight A 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 fiscal year-end available for spending in future periods. These funds are reported using the cash basis of accounting. The governmental fund statements provide a detailed short-term view of the District's general governmental operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs.

**Northern Local School District, Ohio**  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2015  
(Unaudited)

**Proprietary Funds** The District maintains an internal service fund that is used to account for enterprise-like operations that provide services, on a user fee basis, primarily or exclusively to departmental customers within the governmental entity itself, rather than to external customers. The District uses an internal service fund to account for its risk management related to medical/surgical and dental self-insurance. These services have been included within the governmental activities in the government-wide financial statements.

**Fiduciary Funds** These funds are used to account for resources held for the benefit of parties outside the District. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the District's own programs. The District has student activity agency funds and private purpose trust funds.

**The District as a Whole**

Table 1 provides a summary of the District's net position for 2015 compared to 2014 on a cash basis:

Table 1  
**Net Position**

	Governmental Activities	
	June 30, 2015	June 30, 2014
<b>Assets</b>		
Current Assets	\$ 2,397,275	\$ 9,508,535
Total	\$ 2,397,275	\$ 9,508,535
<b>Net Position</b>		
Restricted for:		
Capital Projects	\$ 19,633	\$ 232,407
Debt Service	1,261,729	1,178,665
Food Service	14,231	-
Extracurricular Activities	90,649	102,886
State and Federal Grants	4,916	7,114,148
Recreation	70	70
Unrestricted	1,006,047	880,359
Total Net Position	\$ 2,397,275	\$ 9,508,535

Current Assets and Net Position Restricted for State and Federal Grants both decreased significantly in comparison with the prior fiscal year-end. These decreases are the result of the District spending down Straight A Program funds received in fiscal year 2014.

**Northern Local School District, Ohio**  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2015  
(Unaudited)

Table 2 shows the changes in net position for the fiscal year ended June 30, 2015 in comparison to June 30, 2014.

Table 2  
Changes in Net Position

	Governmental Activities 2015	Governmental Activities 2014
Cash Receipts:		
Program Cash Receipts:		
Charges for Services and Sales	\$ 1,795,655	\$ 2,231,617
Operating Grants and Contributions	7,939,818	11,710,196
Total Program Cash Receipts	<u>9,735,473</u>	<u>13,941,813</u>
General Cash Receipts:		
Property Taxes	8,405,648	8,224,121
Payment in Lieu of Taxes	1,020,370	1,009,684
Grants and Entitlements	12,238,824	11,989,276
Proceeds of Debt	-	1,967,306
Investment Earnings	297	156
Miscellaneous	127,726	151,239
Total General Cash Receipts	<u>21,792,865</u>	<u>23,341,782</u>
Total Cash Receipts	<u>31,528,338</u>	<u>37,283,595</u>
Program Cash Disbursements:		
Instruction	14,487,702	13,733,462
Support Services	9,509,839	9,152,327
Operation of Food Service	988,283	1,083,562
Community Services	105,508	88,456
Intergovernmental	11,722,928	1,585,090
Extracurricular Activities	748,629	687,642
Capital Outlay	207,617	1,725,202
Debt Service:		
Principal Retirement	678,256	575,944
Interest and Fiscal Charges	190,836	227,750
Total Program Cash Disbursements	<u>38,639,598</u>	<u>28,859,435</u>
Change in Net Position	(7,111,260)	8,424,160
Net Position at Beginning of Year	9,508,535	1,084,375
Net Position at End of Year	<u>\$ 2,397,275</u>	<u>\$ 9,508,535</u>

Total Program Cash Receipts decreased significantly in comparison with the prior year. This decrease is primarily the result of a decrease in administrative fees and funding associated with the Straight A Program.

**Northern Local School District, Ohio**  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2015  
(Unaudited)

Total Program Cash Disbursements increased significantly in comparison with the prior fiscal year. This increase is primarily the result of spending down Straight A Program funds received in fiscal year 2014.

The Statement of Activities shows the cost of program services, and the charges for services and sales and grants and the contributions offsetting those services. Table 3 shows the total cost of services and the net cost of services for the current and preceding fiscal years. That is, it identifies the cost of those services supported by tax revenue and unrestricted state entitlements.

Table 3  
Governmental Activities

	Total Cost of Services 2015	Net Cost of Services 2015	Total Cost of Services 2014	Net Cost of Services 2014
Cash Disbursements				
Instruction	\$14,487,702	\$12,272,185	\$13,733,462	\$11,078,983
Support Services	9,509,839	8,837,542	9,152,327	5,838,566
Operation of Food Service	988,283	(77,272)	1,083,562	64,148
Community Services	105,508	15,021	88,456	(10,294)
Intergovernmental	11,722,928	6,472,286	1,585,090	(4,841,728)
Extracurricular Activities	748,629	307,654	687,642	259,051
Capital Outlay	207,617	207,617	1,725,202	1,725,202
Debt Service:				
Principal Retirement	678,256	678,256	575,944	575,944
Interest and Fiscal Charges	190,836	190,836	227,750	227,750
<b>Total Cash Disbursements</b>	<b><u>\$38,639,598</u></b>	<b><u>\$28,904,125</u></b>	<b><u>\$28,859,435</u></b>	<b><u>\$14,917,622</u></b>

The dependence upon tax receipts and unrestricted state entitlements is apparent as approximately 85 percent of instruction activities are supported through taxes and other general receipts.

Approximately 59 percent of extracurricular activities disbursements are covered by program cash receipts. This is primarily a result of athletic fees, ticket sales, gate receipts and contributions.

**Northern Local School District, Ohio**  
 Management's Discussion and Analysis  
 For the Fiscal Year Ended June 30, 2015  
 (Unaudited)

**The District Funds**

The District's funds are accounted for using the cash basis of accounting. The District's governmental funds had total cash receipts, including other financing sources, of approximately \$31.5 million and cash disbursements, including other financing uses, of \$38.5 million. The excess of cash disbursements over cash receipts for the governmental funds totaled approximately \$6.9 million.

The schedule below indicates the cash fund balances and the total change in fund balances as of June 30, 2015 for all of the major and non-major governmental funds.

Table 4  
 Fund Balance Analysis

	<u>June 30, 2015</u>	<u>June 30, 2014</u>	<u>Increase (Decrease)</u>
Major Funds:			
General	\$ 1,356,930	\$ 1,000,333	\$ 356,597
Bond Retirement	1,261,729	1,178,665	83,064
Straight A Fund	(33,532)	7,017,791	(7,051,323)
Other Governmental funds	<u>18,220</u>	<u>343,212</u>	<u>(324,992)</u>
Total	<u>\$ 2,603,347</u>	<u>\$ 9,540,001</u>	<u>\$ (6,936,654)</u>

The General Fund fund balance increased significantly during fiscal year 2015. This increase is primarily the result of an increase in both grants received and tuition and fees received during fiscal year 2015.

The Straight A Fund fund balance decreased significantly during the fiscal year 2015. This decrease is primarily the result of spending down Straight A Program funds received in fiscal year 2014.

***General Fund Budgeting Highlights***

The District's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, cash disbursements, and encumbrances. The most significant budgeted fund is the general fund. During the course of fiscal year 2015, the District amended its general fund budget. The District closely monitors its resources and uses and if necessary, modifies the budgetary documents on a timely basis.

Actual receipts in the general fund were approximately \$21.1 million, only slightly lower than the final estimated receipts of approximately \$21.1 million. The variance between original and final estimated receipts was insignificant.

The variance between the original and final appropriations and the variance between final appropriations and actual budgetary expenditures were both insignificant.

**Northern Local School District, Ohio**  
 Management's Discussion and Analysis  
 For the Fiscal Year Ended June 30, 2015  
 (Unaudited)

**Debt Administration**

At June 30, 2015, the District had \$6,190,944 in debt outstanding, which is a \$625,000 decrease in debt from the prior period.

Table 5  
 Outstanding Debt at Fiscal Year End

	Principal Outstanding 6/30/2015	Principal Outstanding 6/30/2014
<b>Governmental Activities</b>		
Construction & Improvement Refunding Bonds Mature 10/2023; 1.00%-3.50%	\$ 3,144,997	\$ 3,484,997
Permanent Improvement Tax Anticipation Notes Mature 12/2020; 1.00%-4.50%	1,230,000	1,415,000
Energy Conservation Bonds Mature 12/2028; 1.00%-4.00%	1,815,947	1,915,947
	<u>\$ 6,190,944</u>	<u>\$ 6,815,944</u>

**Economic Factors**

The District's current five-year forecast is projecting sufficient receipts for fiscal year 2016 through 2019 with positive ending cash balances of \$2,073,458, \$2,501,663, \$3,170,714 and \$3,749,613, respectively.

To achieve the aforementioned projected cash balances, the Board of Education and administration of the District must continue to maintain careful financial planning and prudent fiscal management in order to preserve the financial stability of the District.

**Contacting the District's Financial Management**

This financial report is designed to provide our citizen's, taxpayers, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have any questions about this report or need additional financial information contact Elizabeth Arnold, Treasurer, at Northern Local District, 8700 Sheridan Drive, Thornville, Ohio 43076. Or, E-mail the Treasurer at [No\\_Larnold@seovec.org](mailto:No_Larnold@seovec.org)

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**NORTHERN LOCAL SCHOOL DISTRICT  
PERRY COUNTY**

**STATEMENT OF NET POSITION - CASH BASIS  
JUNE 30, 2015**

	<u>Governmental Activities</u>
<b>Assets</b>	
Equity in Pooled Cash and Investments	\$ 2,397,275
Total Assets	<u>\$ 2,397,275</u>
<b>Net Position</b>	
Restricted for:	
Capital Projects	\$ 19,633
Debt Service	1,261,729
Food Service	14,231
Extracurricular Activities	90,649
State and Federal Grants	4,916
Recreation	70
Unrestricted	1,006,047
Total Net Position	<u>\$ 2,397,275</u>

See accompanying notes to the basic financial statements.

**NORTHERN LOCAL SCHOOL DISTRICT  
PERRY COUNTY**

**STATEMENT OF ACTIVITIES - CASH BASIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

		Program Receipts		Net (Disbursements)/ Receipts and Changes in Net Position
	Cash Disbursements	Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities
Governmental Activities				
Instruction:				
Regular	\$ 9,706,025	\$ 673,591	\$ 468,119	\$ (8,564,315)
Special	3,141,650	217,946	741,290	(2,182,414)
Vocational	325,407	22,596	-	(302,811)
Other	1,314,620	91,975	-	(1,222,645)
Support Services:				
Pupils	670,055	-	95,426	(574,629)
Instructional Staff	1,809,446	-	428,520	(1,380,926)
Board of Education	183,066	-	-	(183,066)
Administration	1,619,264	-	58,108	(1,561,156)
Fiscal Services	736,385	-	-	(736,385)
Operation and Maintenance	2,437,371	-	-	(2,437,371)
Pupil Transportation	1,850,661	-	81,243	(1,769,418)
Central	203,591	-	9,000	(194,591)
Food Services Operations	988,283	348,572	716,983	77,272
Community Services	105,508	-	90,487	(15,021)
Intergovernmental	11,722,928	-	5,250,642	(6,472,286)
Extracurricular Activities	748,629	440,975	-	(307,654)
Capital Outlay	207,617	-	-	(207,617)
Debt Service:				
Principal Retirement	678,256	-	-	(678,256)
Interest and Fiscal Charges	190,836	-	-	(190,836)
<b>Total Governmental Activities</b>	<b>\$ 38,639,598</b>	<b>\$ 1,795,655</b>	<b>\$ 7,939,818</b>	<b>(28,904,125)</b>
General Receipts				
Property Taxes Levied for:				
General Purposes				6,868,998
Capital Outlay				727,733
Debt Service				808,917
Payment in Lieu of Taxes				1,020,370
Grants & Entitlements not Restricted to Specific Programs				12,238,824
Investment Earnings				297
Other Receipts				127,726
<b>Total General Receipts</b>				<b>21,792,865</b>
Change in Net Position				(7,111,260)
Net Position Beginning of Year				9,508,535
Net Position End of Year				<b>\$ 2,397,275</b>

See accompanying notes to the basic financial statements.

NORTHERN LOCAL SCHOOL DISTRICT  
PERRY COUNTY

STATEMENT OF CASH BASIS ASSETS AND FUND BALANCES  
GOVERNMENTAL FUNDS  
JUNE 30, 2015

	General Fund	Bond Retirement Fund	Straight A Fund	Other Governmental Funds	Total Governmental Funds
<b>Assets:</b>					
Equity in Pooled Cash and Investments	\$ 1,356,930	\$ 1,261,729	\$ (33,532)	\$ 18,220	\$ 2,603,347
Total Assets	\$ 1,356,930	\$ 1,261,729	\$ (33,532)	\$ 18,220	\$ 2,603,347
<b>Fund Balances:</b>					
Restricted for:					
Capital Projects	\$ -	\$ -	\$ -	\$ 19,633	\$ 19,633
Debt Service	-	1,261,729	-	-	1,261,729
Food Service	-	-	-	14,231	14,231
Extracurricular Activities	-	-	-	90,649	90,649
State and Federal Grants	-	-	-	4,916	4,916
Recreation	-	-	-	70	70
Assigned for:					
Public School Support	61,664	-	-	-	61,664
Instruction	46,028	-	-	-	46,028
Support Services	71,742	-	-	-	71,742
Unassigned	1,177,496	-	(33,532)	(111,279)	1,032,685
Total Fund Balances	\$ 1,356,930	\$ 1,261,729	\$ (33,532)	\$ 18,220	\$ 2,603,347

See accompanying notes to the basic financial statements.

**NORTHERN LOCAL SCHOOL DISTRICT  
PERRY COUNTY**

**RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO  
NET POSITION OF GOVERNMENTAL ACTIVITIES  
JUNE 30, 2015**

<b>Total Governmental Fund Balances</b>	<b>\$ 2,603,347</b>
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*Amounts reported for governmental activities in the statement of net position  
are different because:*

Governmental activities' net position include the internal service funds' equity in cash and investments. The proprietary funds' net position include these assets.	<u>(206,072)</u>
--	------------------

<b>Net Position of Governmental Activities</b>	<b><u><u>\$ 2,397,275</u></u></b>
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**NORTHERN LOCAL SCHOOL DISTRICT  
PERRY COUNTY**

**STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS AND CHANGES IN  
CASH BASIS FUND BALANCES - GOVERNMENTAL FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

	General Fund	Bond Retirement Fund	Straight A Fund	Other Governmental Funds	Total Governmental Funds
<b>Receipts:</b>					
Property Taxes	\$ 6,868,998	\$ 808,917	\$ -	\$ 727,733	\$ 8,405,648
Intergovernmental	13,080,977	104,398	5,720,385	2,293,252	21,199,012
Interest	297	-	-	-	297
Tuition and Fees	1,006,108	-	-	-	1,006,108
Extracurricular Activities	124,339	-	-	316,636	440,975
Charges for Services	-	-	-	348,572	348,572
Miscellaneous	127,726	-	-	-	127,726
<b>Total Receipts</b>	<u>21,208,445</u>	<u>913,315</u>	<u>5,720,385</u>	<u>3,686,193</u>	<u>31,528,338</u>
<b>Disbursements:</b>					
<b>Current:</b>					
<b>Instruction:</b>					
Regular	8,572,169	-	267,881	787,768	9,627,818
Special	2,307,231	-	-	807,932	3,115,163
Vocational	322,970	-	-	-	322,970
Other	1,314,620	-	-	-	1,314,620
<b>Support services:</b>					
Pupils	562,076	-	-	102,311	664,387
Instructional staff	929,661	-	780,899	94,178	1,804,738
Board of Education	183,066	-	-	-	183,066
Administration	1,534,592	2	-	69,072	1,603,666
Fiscal	700,890	17,692	-	15,095	733,677
Operation and Maintenance of Plant	2,092,826	-	-	333,069	2,425,895
Pupil Transportation	1,649,353	-	-	183,523	1,832,876
Central	194,591	-	-	9,000	203,591
Operation of Food Services	7,512	-	-	972,297	979,809
Community Services	-	-	-	104,450	104,450
Intergovernmental	-	-	11,722,928	-	11,722,928
Extracurricular Activities	419,756	-	-	328,873	748,629
Capital Outlay	4,000	-	-	203,617	207,617
<b>Debt service:</b>					
Principal Retirement	53,256	625,000	-	-	678,256
Interest and Fiscal Charges	3,279	187,557	-	-	190,836
<b>Total Disbursements</b>	<u>20,851,848</u>	<u>830,251</u>	<u>12,771,708</u>	<u>4,011,185</u>	<u>38,464,992</u>
<b>Net Change in Fund Balances</b>	356,597	83,064	(7,051,323)	(324,992)	(6,936,654)
Fund Balance, Beginning of Year	1,000,333	1,178,665	7,017,791	343,212	9,540,001
Fund Balance, End of Year	<u>\$ 1,356,930</u>	<u>\$ 1,261,729</u>	<u>\$ (33,532)</u>	<u>\$ 18,220</u>	<u>\$ 2,603,347</u>

See accompanying notes to the basic financial statements.

**NOTHERN LOCAL SCHOOL DISTRICT  
PERRY COUNTY**

**RECONCILIATION OF THE STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND  
CHANGES IN CASH FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF  
ACTIVITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

**Net Change in Fund Balances - Total Governmental Funds** \$ (6,936,654)

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

Internal service funds charge insurance costs to other funds. The entity-wide statements eliminate governmental fund disbursements and related internal service fund charges. Governmental activities report allocated net internal service fund receipts. (174,606)

**Change in Net Position of Governmental Activities** \$ (7,111,260)

**NORTHERN LOCAL SCHOOL DISTRICT  
PERRY COUNTY**

**STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)  
GENERAL FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

	Original Budget	Final Budget	Actual	Variance Over/(Under)
<b>Receipts:</b>				
Property Taxes	\$ 6,734,722	\$ 6,871,487	\$ 6,868,998	\$ (2,489)
Intergovernmental	12,821,589	13,080,978	13,080,977	(1)
Interest	156	273	297	24
Tuition and Fees	875,717	1,006,102	1,006,108	6
Miscellaneous	715,351	133,648	127,726	(5,922)
<b>Total Receipts</b>	<b>21,147,535</b>	<b>21,092,488</b>	<b>21,084,106</b>	<b>(8,382)</b>
<b>Disbursements:</b>				
<b>Current:</b>				
<b>Instruction:</b>				
Regular	8,700,490	8,608,772	8,597,678	11,094
Special	2,266,404	2,310,683	2,307,957	2,726
Vocational	323,465	326,819	323,161	3,658
Other	1,272,979	1,366,376	1,334,222	32,154
<b>Support services:</b>				
Pupils	607,653	620,728	619,461	1,267
Instructional staff	996,064	936,157	935,463	694
Board of Education	257,898	196,821	183,620	13,201
Administration	1,633,215	1,554,297	1,536,732	17,565
Fiscal	580,269	708,266	701,394	6,872
Operation and Maintenance of Plant	2,003,365	2,315,746	2,146,249	169,497
Pupil Transportation	1,454,581	1,770,585	1,657,822	112,763
Central	155,731	193,844	193,844	-
Operation of Food Services	3,151	7,513	7,512	1
Extracurricular Activities	263,433	298,375	298,374	1
Capital Outlay	4,000	4,000	4,000	-
Business	12,873	-	-	-
<b>Total Disbursements</b>	<b>20,535,571</b>	<b>21,218,982</b>	<b>20,847,489</b>	<b>371,493</b>
<b>Excess of Receipts Over (Under) Disbursements</b>	<b>611,964</b>	<b>(126,494)</b>	<b>236,617</b>	<b>363,111</b>
<b>Other Financing Sources (Uses):</b>				
Compensation for Loss of Assets	1,028	1,515	-	(1,515)
<b>Total Other Financing Sources (Uses)</b>	<b>1,028</b>	<b>1,515</b>	<b>-</b>	<b>(1,515)</b>
<b>Net Change in Fund Balance</b>	<b>612,992</b>	<b>(124,979)</b>	<b>236,617</b>	<b>361,596</b>
Fund Balances at Beginning of Year	913,543	913,543	913,543	-
Prior Year Encumbrances Appropriated	27,335	27,335	27,335	-
<b>Fund Balances at End of Year</b>	<b>\$ 1,553,870</b>	<b>\$ 815,899</b>	<b>\$ 1,177,495</b>	<b>\$ 361,596</b>

See accompanying notes to the basic financial statements.

**NORTHERN LOCAL SCHOOL DISTRICT  
PERRY COUNTY**

**STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)  
STRAIGHT A FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

	Original Budget	Final Budget	Actual	Variance Over/(Under)
Receipts:				
Intergovernmental	\$ 5,683,845	\$ 5,791,526	\$ 5,720,385	\$ (71,141)
Total Receipts	<u>5,683,845</u>	<u>5,791,526</u>	<u>5,720,385</u>	<u>(71,141)</u>
Disbursements:				
Current:				
Instruction:				
Regular	258,333	269,362	267,881	1,481
Support services:				
Instructional staff	699,595	699,595	818,517	(118,922)
Intergovernmental	11,744,232	11,840,369	11,722,928	117,441
Total Disbursements	<u>12,702,160</u>	<u>12,809,326</u>	<u>12,809,326</u>	<u>-</u>
Net Change in Fund Balance	(7,018,315)	(7,017,800)	(7,088,941)	(71,141)
Fund Balances at Beginning of Year	(5,683,845)	(5,683,845)	(5,683,845)	-
Prior Year Encumbrances Appropriated	12,701,636	12,701,636	12,701,636	-
Fund Balances at End of Year	<u>\$ (524)</u>	<u>\$ (9)</u>	<u>\$ (71,150)</u>	<u>\$ (71,141)</u>

See accompanying notes to the basic financial statements.



**NORTHERN LOCAL SCHOOL DISTRICT  
PERRY COUNTY**

**STATEMENT OF FUND NET POSITION - CASH BASIS  
PROPRIETARY FUND  
JUNE 30, 2015**

	<u>Governmental Activities</u> <u>Internal Service</u>
<b>Assets:</b>	
Equity in Pooled Cash and Investments	<u>\$ (206,072)</u>
Total Assets	<u><u>\$ (206,072)</u></u>
<b>Net Position:</b>	
Unrestricted	<u>\$ (206,072)</u>
Total Net Position	<u><u>\$ (206,072)</u></u>

See accompanying notes to the basic financial statements.

**NORTHERN LOCAL SCHOOL DISTRICT  
PERRY COUNTY**

**STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS  
AND CHANGES IN FUND NET POSITION - CASH BASIS  
PROPRIETARY FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

	Governmental Activities
	Internal Service
<b>Operating Receipts:</b>	
Charges for Services	\$ 4,903,359
Total Operating Receipts	4,903,359
<b>Operating Disbursements:</b>	
Claims	4,228,981
Administration	848,984
Total Operating Disbursements	5,077,965
Change in Net Position	(174,606)
Net Position at Beginning of Year	(31,466)
Net Position at End of Year	\$ (206,072)

See accompanying notes to the basic financial statements.

**NORTHERN LOCAL SCHOOL DISTRICT  
PERRY COUNTY**

**STATEMENT OF FIDUCIARY NET POSITION - CASH BASIS  
FIDUCIARY FUNDS  
JUNE 30, 2015**

	Private Purpose Trust	Agency
<b>Assets:</b>		
Equity in Pooled Cash and Investments	\$ 231,281	\$ 47,596
Total Assets	\$ 231,281	\$ 47,596
<b>Net Position</b>		
Held in Trust for Scholarships	\$ 231,281	\$ -
Held for Students Activity	-	47,596
Total Net Position	\$ 231,281	\$ 47,596

See accompanying notes to the basic financial statements.

**NORTHERN LOCAL SCHOOL DISTRICT  
PERRY COUNTY**

**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION -  
CASH BASIS  
FIDUCIARY FUNDS  
JUNE 30, 2015**

	<u>Private Purpose Trust</u>
<b>Additions</b>	
Contributions	\$ 10,919
Total Additions	<u>10,919</u>
<b>Deductions</b>	
Scholarship Awarded	<u>17,166</u>
Total Deductions	<u>17,166</u>
Change in Net Position	(6,247)
Net Position - Beginning of Year	237,528
Net Position - End of Year	<u><u>\$ 231,281</u></u>

See accompanying notes to the basic financial statements.

**Northern Local District**  
**Perry County**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2015*

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**Note 1 - Description of the District and Reporting Entity**

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

The Northern Local School District of Perry County was established on June 10, 1968 by the State of Ohio as a public school system. The District is a consolidated school district made up from three original high schools in the area, Glenford, Somerset, and Thornville, combined now to be Sheridan High School. The District is located in three counties, Perry, Licking, and Fairfield, serving an area of approximately 173 square miles. The District is staffed by 234 certificated and non-certificated employees who provide services to 2,218 students and other community members. The District currently operates five instructional buildings, one administrative building, and one support service building.

*Reporting Entity*

The reporting entity is comprised of the primary government, component units, and other organizations that are included to insure that the financial statements of the District are not misleading. The primary government 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.

Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the organization's governing board and (1) the District is able to significantly influence the programs or services performed or provided by the organization; or (2) the District is legally entitled to or can otherwise access the organization's resources; the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the District in that the District approves the budget, the issuance of debt, or the levying of taxes. The District does not have any component units.

The District participates in four jointly governed organizations, and one insurance purchasing pools. These organizations are the Southeastern Ohio Voluntary Education Cooperative (SEOVEC), the Metropolitan Educational Council (MEC), Central Ohio Special Education Regional Resource Center, the School Study Council of Ohio, and the Ohio School Boards Association Workers Compensation Group Rating Plan. These organizations are presented in Notes 11 and 12 to the basic financial statements.

**Northern Local District**  
**Perry County**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2015*

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**Note 2 - Summary of Significant Accounting Policies**

As discussed further in Note 2.A, these financial statements are presented on a cash basis of accounting. This cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements, which have been applied to the extent they are applicable to the cash basis of accounting. Following are the more significant of the District's accounting policies.

**A. Basis of Accounting**

The District's financial statements are prepared using the cash basis of accounting. Except for modifications having substantial support, receipts are recorded in the District's financial records and reported in the financial statements when cash is received rather than when earned and disbursements are recorded when cash is paid rather than when a liability is incurred. Any such modifications made by the District are described in the appropriate section in this note.

As a result of the use of this 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 these financial statements.

**B. Basis of Presentation**

The District's basic financial statements prepared on the cash basis of accounting include a government-wide statement, including a cash basis statement of net position and a statement of activities, and cash basis fund financial statements which provide a more detailed level of financial information.

**Government-wide Financial Statements.** The Statement of Net Position and 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. The activity of the internal service fund is eliminated to avoid "doubling up" receipts and disbursements. The statements distinguish between those activities of the District that are governmental in nature and those that are considered business-type activities. Governmental activities generally are financed through taxes, intergovernmental receipts or other non-exchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties for goods and services. The District does not have any business-type activities.

**Northern Local District**  
**Perry County**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2015*

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**Note 2 - Summary of Significant Accounting Policies (Continued)**

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

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

**C. 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. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. The following is a description of the District's major governmental funds:

**General Fund** – used to account for all financial resources except those required to be accounted for in another fund.

**Bond Retirement Fund** - used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs.

**Straight A Fund** – used to account for grant monies received through the Straight A Program that are restricted for projects that will provide for advancement in student achievement, achieve spending reductions in the five-year forecast or allow a greater share of resources to be used in the classroom.

The Districts' Other Governmental Funds primarily account for grants and other resources whose use is restricted to a particular purpose.

**Northern Local District  
Perry County**  
*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2015*

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**Note 2 - Summary of Significant Accounting Policies (Continued)**

**Proprietary Funds** Proprietary fund reporting focuses on the determination of operating income, changes in net position, financial position, and cash flows. Proprietary funds are classified as enterprise or internal service. As described in Note 6, the District uses an internal service fund to account for medical/surgical and dental insurance which the District self-insures.

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

**D. Cash and Investments**

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

During fiscal year 2015, investments were limited to the State Treasury Asset Reserve of Ohio (STAR Ohio), certificates of deposits, and open-ended money market mutual funds. All investments are reported at cost.

The District invests in STAROhio, an investment pool managed by the State Treasurer's office that allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the Securities Exchange Commission as an investment company, but does operate in a manner similar to Rule 2a-7 of the Investment Company Act of 1940.

Investments in STAROhio are valued at STAROhio's share price that is the price the investment could be sold for on June 30, 2015. Management of STAROhio states that its policy also prohibits investing in derivatives and/or engaging in the use of reverse repurchase agreements.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest receipts recorded by the District during fiscal year 2015 amounted to \$297, all of which was recorded in the General Fund.



**Northern Local District**  
**Perry County**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2015*

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**Note 2 - Summary of Significant Accounting Policies (Continued)**

***E. Budgetary Data***

All funds, other than agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the appropriation resolution, and the certificate of estimated resources, which are prepared on the budgetary basis of accounting.

The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amounts that the Board of Education may appropriate. The appropriation resolution is the Board's authorization to spend resources and set annual limits on expenditures at a level of control selected by the Board. The legal level of control has been established by the Board of Education at the fund level. The General Fund and Straight A Fund "Statement of Cash Receipts, Cash Disbursements and Changes in Fund Balance – Budget and Actual (Non-GAAP Budgetary Basis)" have been presented at the function level for comparative purposes.

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

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

***F. Inventory and Prepaid Items***

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

***G. Capital Assets***

Capital assets are not recognized in any of the District's funds in accordance with the cash basis of accounting. Instead, capital acquisition and construction costs are reflected as cash disbursements in the fund in the year expended. The costs of normal maintenance and repairs are also expended, along with improvements. Depreciation is not recorded.

***H. Interfund Receivables/Payables***

The District reports advances-in and advances-out for interfund loans. These items are not reflected as assets and liabilities in the accompanying financial statements.

**Northern Local District  
Perry County**  
*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2015*

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**Note 2 - Summary of Significant Accounting Policies (Continued)**

***I. Compensated Absences***

Employees are entitled to vacation, sick, and personal leave benefits that are recorded when cash is disbursed. A liability for any unused benefits is not recorded on the District's cash basis financial statements.

***J. Long-Term Obligations***

The District's cash basis financial statements do not report liabilities for bonds and other long-term obligations. Proceeds of debt are reported when cash is received and principal and interest payments are reported when paid. Since recording a capital asset when entering into a capital lease is not the result of a cash transaction, neither an other financing source nor a capital outlay expenditure are reported at inception. Lease payments are reported when paid.

***K. Net Position***

Net position are recorded in conjunction with assets recorded by the District. Net position is reported as restricted when there are limitations imposed on their 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 applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net position are available. None of the District's restricted net position are the result of enabling legislation.

***L. Interfund Activity***

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

Exchange transactions between funds are reported as cash receipts in the seller funds and as cash 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. Repayments from funds responsible for particular cash disbursements to the funds that initially paid for them are not presented on the financial statements.

**Northern Local District  
Perry County**  
*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2015*

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**Note 2 - Summary of Significant Accounting Policies (Continued)**

***M. Fund Balances***

In accordance with Governmental Accounting Standards Board Statements No. 54, Fund Balance Reporting, the District classifies its fund balance based on the purpose for which the resources were received and the level of constraint placed on the resources. The following categories were used:

Restricted - resources that have external purpose restraints imposed on them by providers, such as creditors, grantors, or other regulators.

Assigned - resources that are constrained by the District's intent to be used for specific purposes, but are neither restricted nor committed.

Unassigned - residual fund balance within the General Fund not classified elsewhere above and all other governmental fund balances which have a negative fund balance.

The District applies restricted resources first when an expense is incurred for purposes which both restricted and unrestricted net position are available. The District considers assigned and unassigned fund balances, respectively, to be spent when expenditures are incurred for purposes for which any of the unrestricted fund balance classifications could be used.

***N. Operating Cash Receipts and Cash Disbursements***

Operating cash receipts are those cash receipts that are generated directly from the primary activity of the proprietary fund. For the District, these cash receipts are charges for services for self-insurance programs. Operating cash disbursements are necessary costs incurred to provide the service that is the primary activity of the fund.

***O. 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 are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during the fiscal year.

***P. Restricted Assets***

Assets are reported as restricted when limitations on their use change the nature or normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments, or imposed by law through constitutional provisions or enabling legislation. The District had no restricted assets at year-end.

**Northern Local District**  
**Perry County**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2015*

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**Note 2 - Summary of Significant Accounting Policies (Continued)**

**Q. Employer Contributions to Cost-Sharing Pension Plans**

The District recognizes the disbursement for employer contributions to cost-sharing pension plans when they are paid. As described in Notes 7 and 8, the employer contributions consist of pension and postretirement health care benefits.

**R. Deferred Outflows and Inflows of Resources**

The District's cash basis financial statements do not report deferred outflows and inflows of resources. The District recognizes the disbursement for deferred outflows when they are paid and proceeds of deferred inflows are reported when cash is received.

**Note 3 – Compliance**

**A. Financial Statement Reporting**

Ohio Administrative Code, Section 117-2-03 (B), requires the District to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America. However, the District prepared its financial statements on a cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The accompanying financial statements omit assets, 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.

**B. Negative Cash**

The School District had negative cash fund balances in the following fund indicating that revenue from other sources were used to pay obligations of this fund contrary to Ohio Revised Codes Section 5705.10:

	Amount
Internal Service Fund	(\$206,072)

**Northern Local District**  
**Perry County**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2015*

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**Note 4 - Deposits and Investments**

Monies held by the District are classified by State statute 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 held by the District can be deposited or invested in the following securities:

1. United States treasury notes, bills, bonds, or any other obligation or security issued by the United States treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, 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;
4. Bonds and other obligations of the State of Ohio or Ohio local governments;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations describe in division (1) or (2) and repurchase agreements secured by such obligations;
7. The State Treasurer's investment pool (STAR Ohio); and,
8. Commercial paper and bankers acceptances if training requirements have been met.

**Northern Local District**  
**Perry County**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2015*

**Note 4 - 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. Investments may only be made through specified dealers and institutions.

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.

**Deposits** Custodial credit risk is the risk that, in the event of a bank failure, the District's deposits may not be returned. All deposits are collateralized with eligible securities 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.

At fiscal year-end, the carrying amount of all District deposits was \$2,669,816 including certificates of deposit totaling \$90,000, and the bank balance was \$3,139,725. Of the District's bank balance, \$587,061 was covered by Federal Deposit Insurance (FDIC) and the remaining balance was exposed to custodial risk. Although all statutory requirement for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the District to a successful claim by the FDIC. In addition the District held \$1,500 in petty cash at fiscal year-end.

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.

**Investments** The District has adopted a formal investment policy. The primary objective of the policy is the preservation of principal. To meet this objective, portfolio diversification is established and maintained with a goal of generating portfolio income that exceeds any losses in individual security values.

At June 30, 2015, the District had the following investments:

	Fair Value	Maturity in Years		Percent to Total
		Less than 1	1 to 3	
STAROhio	\$ 3,567	\$ 3,567	\$ -	73.76%
RSA Mutual Fund	1,269	1,269	-	26.24%
<b>Total</b>	<b>\$ 4,836</b>	<b>\$ 4,836</b>	<b>\$ -</b>	<b>100.00%</b>

**Northern Local District**  
**Perry County**  
*Notes to the Basic Financial Statements*  
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**Note 4 - Deposits and Investments (Continued)**

**Interest Rate Risk** 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** The District currently has no policy in place regarding credit risk. The District's investments in STAR Ohio and money market mutual funds are rated AAAM by Standard & Poor's.

**Concentration of Credit Risk** The District places no limit on the amount that may be invested in any one issuer.

**Note 5 - 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, public utility property, and tangible personal (used in business) property located in the District. Real property tax receipts received in calendar year 2015 represent the collection of calendar year 2014 taxes. Real property taxes received in calendar year 2015 were levied after April 1, 2014, on the assessed values as of January 1, 2014, the lien date. Assessed values for real property taxes are established by State statute at thirty-five 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 2015 represent the collection of calendar year 2014 taxes. Public utility real property taxes received in calendar year 2015 became a lien on December 31, 2013, were levied after April 1, 2014, and are collected with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

The District receives property taxes from Perry, Licking and Fairfield County. The County Auditors periodically advance to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2015, are available to finance fiscal year 2015 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

**Northern Local District  
Perry County**  
*Notes to the Basic Financial Statements  
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**Note 5 - Property Taxes (Continued)**

The assessed values upon which property taxes were collected are:

	2014 Second- Half Collections		2015 First- Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/ Residential and Other Real Estate	\$262,009,180	83.88%	\$310,599,182	83.46%
Public Utility Personal	50,339,030	16.12%	61,550,600	16.54%
<b>Total</b>	<b>\$312,348,210</b>	<b>100.00%</b>	<b>\$372,149,782</b>	<b>100.00%</b>
Full Tax rate per \$1,000 of assessed valuation	\$38.92		\$35.30	

**Note 6 - Risk Management**

**A. Property and Liability**

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2015, the District contracted with Indiana Insurance for property, builder's risk, liability, and fleet insurances.

Coverage provided is as follows:

Building and Contents-replacement cost (\$5,000 deductible)	\$87,664,765
Accounts Receivable	250,000
Equipment (\$500 deductible)	2,141,208
Employee Dishonesty (\$5,000 deductible)	1,000,000
Fleet Insurance	1,000,000
Educational General Liability	
Per occurrence	1,000,000
Aggregate per year	2,000,000
Employee Benefits Liability	
Per occurrence	1,000,000
Aggregate per year	3,000,000

Settled claims have not exceeded this commercial coverage in any of the past three fiscal years. There has been no significant reduction in insurance coverage in fiscal year 2015 from fiscal year 2014.



**Northern Local District  
Perry County**  
*Notes to the Basic Financial Statements  
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**Note 6 - Risk Management (Continued)**

**B. Workers Compensation**

For fiscal year 2015, the District participated in the Ohio School Board Association (OSBA) Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (Note 12) established under Section 4123.29 of the Ohio Revised Code. The intent of the GRP is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating Districts is calculated as one experience and a common premium rate is applied to all Districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Participation in the GRP is limited to Districts and libraries that can meet the GRP's selection criteria.

**C. Self-Insurance**

During the fiscal year, employees of the District were covered by the District's medical/surgical and dental self-insurance Plan (the "Plan"). The District contributed approximately 90% per month per employee to the Plan and employees authorized payroll withholdings to pay their share of the premium which was approximately 10% per month. Total premiums paid into the internal service fund of the District were \$4,903,359 of which the District paid \$3,604,227 while the employees were responsible for the remaining portion.

At June 30, 2015 the self-insurance balance was (\$206,072). A comparison of the internal service fund cash and investments to the actuarially-measured liability as of June 30, 2014 follows:

	<u>2015</u>	<u>2014</u>
Cash and investments	(\$206,072)	(\$31,466)
Claims liabilities at June 30	\$255,409	\$196,733

**Note 7 - Defined Benefit Pension Plans**

For fiscal year 2015, Governmental Accounting Standards Board (GASB) Statement No. 68, "Accounting and Financial Reporting for Pensions" and GASB Statement No. 71, "Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68" were effective. These GASB pronouncements had no effect on beginning net position as reported June 30, 2014, as the net pension liability is not reported in the accompanying financial statements. The net pension liability has been disclosed below.

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.

**Northern Local District  
Perry County**  
*Notes to the Basic Financial Statements  
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**Note 7 - Defined Benefit Pension Plans (Continued)**

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

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

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

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

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

Age and service requirements for retirement are as follows:

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

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

**Northern Local District  
Perry County**  
*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2015*

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**Note 7 - Defined Benefit Pension Plans (Continued)**

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, 2015, the allocation to pension, death benefits, and Medicare B was 13.18 percent. The remaining 0.82 percent of the 14 percent employer contribution rate was allocated to the Health Care Fund.

The District's contractually required contribution to SERS was \$372,592 for fiscal year 2015.

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

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

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

**Northern Local District  
Perry County**  
*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2015*

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**Note 7 - Defined Benefit Pension Plans (Continued)**

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

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

New members who choose the DC plan or Combined Plan will have another opportunity to reselect a permanent plan during their fifth year of membership. Members may remain in the same plan or transfer to another STRS plan. The optional annuitization of a member's defined contribution account or the defined contribution portion of a member's Combined Plan account to a lifetime benefit results in STRS bearing the risk of investment gain or loss on the account. STRS has therefore included all three plan options as one defined benefit plan for GASB 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, 2014, and will be increased one percent each year until it reaches 14 percent on July 1, 2016. For the fiscal year ended June 30, 2015, plan members were required to contribute 12 percent of their annual covered salary. The School District was required to contribute 14 percent; the entire 14 percent was the portion used to fund pension obligations. The fiscal year 2015 contribution rates were equal to the statutory maximum rates.

The District's contractually required contribution to STRS was \$1,243,962 for fiscal year 2015.

**Northern Local District  
Perry County**  
*Notes to the Basic Financial Statements  
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**Note 7 - Defined Benefit Pension Plans (Continued)**

***Net Pension Liability***

The net pension liability was measured as of June 30, 2014, 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	Total
Proportionate Share of the Net Pension Liability	\$ 4,249,168	\$ 20,836,012	\$ 25,085,180
Proportion of the Net Pension Liability	0.08396%	0.0856622%	

***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.

**Northern Local District  
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**Note 7 - Defined Benefit Pension Plans (Continued)**

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of June 30, 2014, are presented below:

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

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

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

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

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

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

**Northern Local District  
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*Notes to the Basic Financial Statements  
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**Note 7 - Defined Benefit Pension Plans (Continued)**

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

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
District's proportionate share of the net pension liability	\$ 6,062,300	\$ 4,249,168	\$ 2,724,167

***Actuarial Assumptions - STRS***

The total pension liability in the June 30, 2014, 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, 2014, valuation are based on the results of an actuarial experience study, effective July 1, 2012.

The 10 year expected real rate of return on pension plan investments was determined by STRS' investment consultant by developing best estimates of expected future real rates of return for each major asset class.

**Northern Local District  
Perry County**  
*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2015*

**Note 7 - Defined Benefit Pension Plans (Continued)**

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, 2014. 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, 2014. 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, 2014.

**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	\$ 29,829,022	\$ 20,836,012	\$ 13,230,951



**Northern Local District  
Perry County**  
*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2015*

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**Note 8 - Postemployment Benefits**

**A. School Employees Retirement System**

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

Health Care Plan – Sections 3309.375 and 3309.69 of the Ohio Revised Code permit SERS to offer health care benefits to eligible retirees and beneficiaries. SERS' Retirement Board reserves the right to change or discontinue any health plan or program. SERS offers several types of health plans from various vendors, including HMOs, PPOs, Medicare Advantage and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively. The Ohio Revised Code provides the statutory authority to fund SERS' postemployment benefits through employer contributions. Active members do not make contributions to the postemployment benefit plan.

The Health Care Fund was established under, and is administered in accordance with Internal Revenue Code 105(e). Each year after the allocation for statutorily required pensions and benefits, the Retirement Board allocates the remainder of the employer 14% contribution to the Health Care Fund to be used to subsidize the cost of health care coverage. For the year ended June 30, 2015, the health care allocation is .82%. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated if less than a full year of service credit was earned. By statute no employer shall pay a health care surcharge greater than 2% of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5% of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2015, the minimum compensation level was established at \$20,450. The surcharge, added to the unallocated portion of the 14% employer contribution rate is the total amount assigned to the Health Care Fund. The District's contributions assigned to health care, including the surcharge, for the years ended June 30, 2015, 2014, and 2013 were \$64,086, \$47,045, and \$49,430, respectively, which equaled the required contributions each year.

The SERS Retirement Board establishes the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending on the plan selected, qualified years of service, Medicare eligibility, and retirement status. The financial reports of SERS' Health Care plan is included in its *Comprehensive Annual Financial Report*. The report can be obtained on SERS' website at [www.ohsers.org](http://www.ohsers.org) under Employers/Audit Resources.

**Northern Local District  
Perry County**  
*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2015*

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**Note 8 - Postemployment Benefits (Continued)**

**B. State Teachers Retirement System**

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

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

Pursuant to Chapter 3307 of the Revised Code, the Retirement Board has discretionary authority over how much, if any, of the associated health care costs will be absorbed by STRS Ohio. All health care plan enrollees, for the most recent year, pay a portion of the health care costs in the form of a monthly premium.

STRS Ohio issues a stand-alone financial report. Interested parties can view the most recent Comprehensive Annual Financial Report by visiting [www.strsoh.org](http://www.strsoh.org) or by requesting a copy by calling toll-free 1-888-227-7877.

Funding Policy – Under Ohio law, funding for post-employment health care may be deducted from employer contributions. Of the 14% employer contribution rate, 1% of covered payroll was allocated to post-employment health care for the years ended June 30, 2014, 2013 and 2012. Effective July 1, 2014, 0% of covered payroll was allocated to post-employment health care. The 14% employer contribution rate is the maximum rate established under Ohio law.

The District's contributions for health care for the fiscal years ended June 30, 2015, 2014, and 2013 were \$0, \$87,658, and \$94,900, respectively, which equaled the required contributions each year.

**Northern Local District  
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*Notes to the Basic Financial Statements  
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**Note 9 - Long Term Obligations**

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

	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
<b>Government Activities</b>					
Construction & Improvement					
Refunding Bonds					
Mature 10/2023; 1.00%-3.50%	\$ 3,484,997	\$ -	\$ 340,000	\$ 3,144,997	\$ 350,000
Permanent Improvement					
Tax Anticipation Notes					
Mature 12/2020; 1.00%-4.50%	1,415,000	-	185,000	1,230,000	190,000
2013 Energy Conservation Bonds					
Mature 12/2028; 1.00%-4.00%	1,915,947	-	100,000	1,815,947	110,000
Total	<u>\$ 6,815,944</u>	<u>\$ -</u>	<u>\$ 625,000</u>	<u>\$ 6,190,944</u>	<u>\$ 650,000</u>

The School Facilities Construction Bonds were issued in fiscal year 2002 and the proceeds were used for construction of new school facilities. These bonds are direct obligations of the District for which its full faith, credit, and resources are pledged and are payable from taxes levied on all taxable property within the District.

During fiscal year 2012, the District issued \$4,194,997 in Construction & Improvement Refunding Bonds which consisted of \$4,100,000 in serial bonds and \$94,997 in capital appreciation bonds. The capital appreciation bonds will mature on October 1, 2018. These bonds were purchased at a discount at the time of issuance and, at maturity all compound interest is paid and the bond holder collects the face value. However, since interest is technically earned and compounded semi-annually, the value of the bond increases. The maturity amount of these bonds is \$370,000.

The Construction & Improvement Refunding Bonds were issued to refund the outstanding balance of the School Facilities Construction Bonds (\$4,195,000). This refunding was undertaken to take advantage of lower interest rates. The total debt service payments were reduced by \$460,607 and the present value of this reduction resulted in an economic gain of \$386,857.

During fiscal year 2012, the District also issued \$2,000,000 in Permanent Improvement Tax Anticipation Notes. The proceeds of the notes were used for permanent improvements made by the District. These notes are special obligations of the District for which the receipts of a 4.2 mill permanent improvement levy are pledged and are payable from taxes levied on all taxable property within the District.

On November 14, 2013, the District issued \$1,915,947 in energy conservation improvement bonds which consisted of \$960,000 in serial bonds, \$875,000 in term bonds, and \$80,947 in capital appreciation bonds. The capital appreciation bonds will mature on December 1, 2016 in the amount of \$115,000.

**Northern Local District  
Perry County**  
*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2015*

**Note 9 - Long Term Obligations (Continued)**

Debt service requirements to maturity on the debt, principal and interest, are as follows:

Fiscal Year Ending June 30	Principal	Interest
2016	650,000	175,344
2017	630,947	196,704
2018	685,000	148,209
2019	424,997	410,009
2020	705,000	118,963
2021-2025	2,495,000	289,072
2026-2030	600,000	49,400
	<u>\$ 6,190,944</u>	<u>\$ 1,387,701</u>

**Note 10 – Lease Obligations**

The District has entered into capitalized leases for copiers and computers.

Due to the District reporting on the cash basis of accounting, the accompanying copiers and computers are not reflected as assets and liabilities within the accompanying financial statements. Principal and interest payments associated with outstanding lease obligations are paid by the General Fund.

In fiscal year 2015, the District made lease payment totaling \$53,256 in principal and \$3,279 in interest.

The agreements provide for minimum annual rental payments as follows:

Fiscal Year Ending June 30	Principal	Interest
2016	29,407	1,074
2017	11,062	338
2018	946	4
	<u>\$ 41,415</u>	<u>\$ 1,416</u>

**Northern Local District  
Perry County**  
*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2015*

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**Note 11 - Jointly Governed Organizations**

***A. Southeastern Ohio Voluntary Education Cooperative***

The District is a participant in the Southeastern Ohio Voluntary Education Cooperative which is a computer consortium. SEOVEC is an association which services thirty entities within the boundaries of eight counties. These entities consist of public Districts, private schools, and educational service centers. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member Districts. The governing board of SEOVEC consists of the superintendents from all participating districts.

The continued existence of SEOVEC is not dependent on the District's continued participation and no equity interest exists. The SEOVEC constitution states that any District withdrawing from the Association prior to dissolution forfeits their claim to the Association's capital assets. The District's total payments to SEOVEC for fiscal year 2015 were \$153,487. Financial statements for SEOVEC can be obtained from their fiscal agent, the Southeastern Ohio Voluntary Education Cooperative, 221 North Columbus Road, P.O. Box 1250, Athens, Ohio 45701.

***B. Metropolitan Educational Council***

The District participates in the Metropolitan Educational Council (MEC), a jointly governed organization. The organization is composed of over 135 members, which includes Districts, joint vocational schools, educational service centers, and libraries covering 24 counties in Central Ohio.

The MEC helps its members purchase services, insurances, supplies, and other items at a discounted rate. The governing board of MEC is composed of either the superintendent, a designated representative or a member of the board of education for each participating District in Franklin County (18 Districts) and one representative from each county. Each year, the participating Districts pay a membership fee to MEC to cover the costs of administering the program. Financial information may be obtained from the MEC fiscal officer at 2100 Citygate Drive, Columbus, Ohio 43219.

***C. Central Ohio Special Education Regional Resource Center***

The Central Ohio Special Educational Regional Resource Center (COSERRC) provides special education services at a regional level and assists Districts in complying with the mandates of P.L. 101-476 and P.L. 99-457 for educating children with disabilities. There is no financial commitment by the District for its participation in the projects. The District has one representative on the governing board. The District did not make any contributions to COSERRC during the fiscal year. Further information may be obtained by contacting the Central Ohio Special Education Regional Resource Center at 470 Glenmont Avenue, Columbus, Ohio 43214.

**Northern Local District  
Perry County**  
*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2015*

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**Note 11 - Jointly Governed Organizations (Continued)**

***D. School Study Council of Ohio***

The School Study Council of Ohio (Council) is a jointly governed organization operated by a Board of Trustees (Board) that is comprised of numerous Ohio Districts. The purpose of the Council is to bring about the improvement of education in member school organizations. Districts maintain active membership by paying a yearly membership fee which entitles each District to attend Council meetings and voting privileges.

Districts that elect to be associate members are entitled to attend meetings and participate in Council discussions but are not entitled to vote.

The Board is annually elected from within the Council's active membership. The Board consists of twenty-one members. The District did not make any contributions to the School Study Council of Ohio during the fiscal year. Financial information may be obtained by contacting the School Study Council of Ohio at 4807 Evanswood Drive, Suite 300, Columbus, Ohio 43229.

**Note 12 – Insurance Purchasing Pools**

***Ohio School Boards Association Workers' Compensation Group Rating Plan***

The District participates in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool.

The GRP's business and affairs are conducted by a three member Board of directors consisting of the President, the President-Elect and the Immediate Past President of the OSBA. The Executive Director of the OSBA, or his designee, serves as coordinator of the program. Each year, the participating Districts pay an enrollment fee to the GRP to cover the costs of administering the program.

**Note 13 - Set asides**

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

**Northern Local District  
Perry County**  
*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2015*

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**Note 13 - Set asides (Continued)**

The following describes the changes in the year end set-aside:

	<u>Capital Acquisition</u>
Set-aside Reserve Balance as of June 30, 2014	\$ -
Current Year Set-aside Requirement	374,487
Current Year Offsets	(801,552)
Qualifying Disbursements	-
Total	<u>\$ (427,065)</u>

Although the School District had qualifying offsets during the fiscal year that reduced the set-aside amount below zero for the capital improvements set-aside, this amount may not be used to reduce the set aside requirement of future years. The negative balance is therefore not presented as being carried forward to future fiscal years.

**Note 14 - Contingencies**

**A. Grants** The District received financial assistance from federal and state agencies in the form of grants. The cash 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 general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at fiscal year-end.

**B. Litigation** The District is currently not a party to any material legal proceedings.

**Note 15 – Budgetary Basis of Accounting**

The budgetary basis as provided by law is based upon accounting for certain transactions on the basis of cash receipts, cash disbursements, and encumbrances. The Statement of Cash Receipts, Cash Disbursements and Change in Fund Balance – Budget and Actual – Budget Basis presented for the General Fund and Straight A Fund are prepared on the budgetary basis to provide a meaningful comparison of actual results with the budget. The difference between the budgetary basis and the cash basis is outstanding fiscal year end encumbrances which are treated as cash disbursements (budgetary basis) rather than as restricted or assigned fund balance (cash basis).

**Northern Local District  
Perry County**  
*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2015*

**Note 15 – Budgetary Basis of Accounting (Continued)**

In addition, differences may exist based on fund type reporting criteria between the cash basis financial statements and budgetary basis financial statements. The budgetary comparison information presented at June 30, 2015 for the General Fund represents the legally adopted budget for the General Fund without modification for any other funds combined with the General Fund for reporting purposes. The District's Public School Support Fund is presented as part of the School District's General Fund in the fiscal year-end financial statements.

	General Fund	Straight A Fund
Change in Fund Balance	\$ 356,597	\$ (7,051,323)
Public School Support Fund	(2,210)	-
Encumbrances	(117,770)	(37,618)
Change in Fund Balance - Budgetary Basis	\$ 236,617	\$ (7,088,941)

**Note 16 – Changes in Accounting Principles**

For fiscal year 2015, the District has implemented the following:

*GASB Statement No. 68 "Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27"* improves the decision-usefulness of information in employer and governmental nonemployer contributing entity financial reports and enhances its value for assessing accountability and interperiod equity by requiring recognition of the entire pension liability and a more comprehensive measure of pension expense. This statement also replaces GASB Statement No. 27 as it relates to pensions that are provided through pension plans administered as trusts or equivalent arrangements that meet certain criteria. The implementation of this statement had a significant effect on the financial statements of the District.

*GASB Statement No. 69 "Government Combinations and Disposals of Government Operations"* provides specific accounting and financial reporting guidance for combinations in the governmental environment. This Statement also improves the decision usefulness of financial reporting by requiring that disclosures be made by governments about combination arrangements in which they engage and for disposals of government operations. The implementation of this statement did not have an effect on the financial statements of the District.

*GASB Statement No. 71 "Pension Transition for Contributions Made Subsequent to the Measurement Date – an Amendment of GASB Statement No. 68"* eliminates the source of potential significant understatement of restated beginning net position and expense in the first year of implementation of Statement No. 68 in the accrual-basis financial statements of employers and nonemployer contributing entities. The implementation of this statement did not have an effect on the financial statements of the District.



**Northern Local District  
Perry County**  
*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2015*

**Note 17 – Contractual Commitments**

Encumbrances

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

Governmental Funds	
General Fund	\$ 128,409
Straight A Grant Fund	37,618
Other Governmental Funds	56,130
Total Governmental Funds	222,157
Private Purpose Trust Fund	4,150
Agency Fund	15,126
Grand Total	\$ 241,433

Contractual Commitments

The District had the following significant contractual commitments at June 30, 2015:

Vendor	Project	Contract Amount	Amount Paid	Outstanding Balance
Battelle for Kids	Straight A Grant	\$ 6,499,870	\$ (5,073,288)	\$ 1,426,582
Ohio University	Straight A Grant	250,000	(31,684)	218,316
Total		\$ 6,749,870	\$ (5,104,972)	\$ 1,644,898

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**NORTHERN LOCAL SCHOOL DISTRICT  
PERRY COUNTY**

**SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

<b>FEDERAL GRANTOR</b> <i>Pass-Through Grantor</i> Program Title	Grant Year	Federal CFDA Number	Receipts	Disbursements
<b><u>U.S. DEPARTMENT OF AGRICULTURE</u></b>				
<i>Passed through Ohio Department of Education:</i>				
Child Nutrition Cluster:				
Non-Cash Assistance (Food Distribution):				
School Breakfast Program	2014/2015	10.553	\$ 9,075	\$ 9,075
National School Lunch Program	2014/2015	10.555	51,422	51,422
Non-Cash Assistance Subtotal			<u>60,497</u>	<u>60,497</u>
Cash Assistance:				
School Breakfast Program	2014/2015	10.553	292,514	292,514
National School Lunch Program	2014/2015	10.555	417,573	417,573
Cash Assistance Subtotal			<u>710,087</u>	<u>710,087</u>
Total Child Nutrition Cluster			770,584	770,584
National School Meals Equipment Grant	2015	10.579	4,194	0
Total U.S. Department of Agriculture			774,778	770,584
<b><u>U.S. DEPARTMENT OF EDUCATION</u></b>				
<i>Passed Through Ohio Department of Education:</i>				
Title I Grants to Local Educational Agencies	2014	84.010	79	3,109
	2015		443,408	469,999
Total Title I Grants to Local Educational Agencies			<u>443,487</u>	<u>473,108</u>
Special Education - Grants to States	2014	84.027	0	8,382
	2015		414,701	428,169
Total Special Education - Grants to States			<u>414,701</u>	<u>436,551</u>
Twenty-First Century Community Learning Centers	2014	84.287	0	57,644
	2015		363,515	400,000
Total Twenty-First Century Community Learning Centers			<u>363,515</u>	<u>457,644</u>
Improving Teacher Quality State Grants	2014	84.367	12,973	3,492
	2015		90,878	96,991
Total Improving Teacher Quality State Grants			<u>103,851</u>	<u>100,483</u>
ARRA - Race-to-the-Top Incentive Grants, Recovery Act				
Race to the Top	2014	84.395	88	159
Ohio Appalachian Collaborative (OAC)	2014		19,484	28,886
Race to the Top	2015		2,346	2,346
Race to the Top - OACR	2014		268	268
Total ARRA - Race-to-the-Top Incentive Grants, Recovery Act			<u>22,186</u>	<u>31,659</u>
Total U.S. Department of Education			<u>1,347,740</u>	<u>1,499,445</u>
<b>Total Federal Awards Receipts and Expenditures</b>			<b><u>\$ 2,122,518</u></b>	<b><u>\$ 2,270,029</u></b>

*The accompanying Notes to the Schedule of Federal Awards Receipts and Expenditures are an integral part of this Schedule.*

**NORTHERN LOCAL SCHOOL DISTRICT  
PERRY COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

**NOTE A – SIGNIFICANT ACCOUNTING POLICIES**

The accompanying Schedule of Federal Awards Receipts and Expenditures (the Schedule) reports the District's federal award programs' receipts and disbursements. The Schedule has been prepared on the cash basis of accounting.

**NOTE B – CHILD NUTRITION CLUSTER**

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

**NOTE C – FOOD DONATION PROGRAM**

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



# Dave Yost • Auditor of State

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

Northern Local School District  
Perry County  
8700 Sheridan Road NW  
Thornville, Ohio 43076

To the Board of Education:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Northern Local School District, Perry County, Ohio (the District), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated March 23, 2016, wherein we noted the District uses a special purpose framework other than generally accepted accounting principles. We also noted the District adopted Governmental Accounting Standards Board Statement (GASB) No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*.

### ***Internal Control Over Financial Reporting***

As part of our financial statement audit, we considered the 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 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 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 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 instances of noncompliance or other matters we must report under *Government Auditing Standards*, which are described in the accompanying schedule of findings as items 2015-001 and 2015-002.

***District's Response to Findings***

The District's responses to the findings identified in our audit are described in the accompanying schedule of findings. We did not audit the District's responses and, accordingly, we express no opinion on them.

***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 District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



**Dave Yost**  
Auditor of State  
Columbus, Ohio

March 23, 2016



# Dave Yost • Auditor of State

## INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

Northern Local School District  
Perry County  
8700 Sheridan Road NW  
Thornville, Ohio 43076

To the Board of Education:

### ***Report on Compliance for Each Major Federal Program***

We have audited the Northern Local School District's, Perry County, Ohio (the District), compliance with the applicable requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that could directly and materially affect each of the District's major federal programs for the year ended June 30, 2015. The *Summary of Auditor's Results* in the accompanying schedule of findings identifies the District's major federal programs.

### ***Management's Responsibility***

The District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

### ***Auditor's Responsibility***

Our responsibility is to opine on the District's compliance for each of the District's major federal programs based on our audit of the applicable compliance requirements referred to above. Our compliance audit followed auditing standards generally accepted in the United States of America; the standards for financial audits included in the Comptroller General of the United States' *Government Auditing Standards*; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. These standards and OMB Circular A-133 require us to plan and perform the audit to reasonably assure whether noncompliance with the applicable compliance requirements referred to above that could directly and materially affect a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

### ***Basis for Qualified Opinion on Title I***

As described in Finding 2015-003 in the accompanying Schedule of Findings, the District did not comply with requirements regarding reporting applicable to its Title I major federal program. Compliance with this requirement is necessary, in our opinion, for the District to comply with requirements applicable to this program.

### ***Qualified Opinion on Title I***

In our opinion, except for the noncompliance described in the *Basis for Qualified Opinion on Title I* paragraph, the District complied, in all material respects, with the requirements referred to above that could directly and materially affect its Title I major federal program for the year ended June 30, 2015.

### ***Unmodified Opinion on Each of the Other Major Federal Programs***

In our opinion, the District complied in all material respects with the requirements referred to above that could directly and materially affect each of its other major federal programs identified in the *Summary of Auditor's Results* section of the accompanying schedule of findings for the year ended June 30, 2015.

### ***Report on Internal Control Over Compliance***

The District's management is responsible for establishing and maintaining effective internal control over compliance with the applicable compliance requirements referred to above. In planning and performing our compliance audit, we considered the District's internal control over compliance with the applicable requirements that could directly and materially affect a major federal program, to determine our auditing procedures appropriate for opining on each major federal program's compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not to the extent needed to opine on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the District's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. Therefore, we cannot assure we have identified all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. However, as discussed below, we identified a certain deficiency in internal control over compliance that we consider to be a material weakness.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program's applicable compliance requirement. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a federal program's compliance requirement will not be prevented, or timely detected and corrected. A *significant deficiency in internal control over compliance* is a deficiency or a combination of deficiencies in internal control over compliance with a federal program's applicable compliance requirement that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings as item 2015-003 to be a material weakness.

The District's response to our internal control over compliance finding is described in the accompanying Schedule of Findings and Corrective Action Plan. We did not audit the District's response and, accordingly, we express no opinion on it.



Northern Local School District  
Perry County  
Independent Auditor's Report on Compliance Applicable  
To Each Major Federal Program and on Internal Control Over Compliance in  
Accordance with OMB Circular A-133  
Page 3

This report only describes the scope of our internal control over compliance tests and the results of this testing based on OMB Circular A-133 requirements. Accordingly, this report is not suitable for any other purpose.

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

**Dave Yost**  
Auditor of State  
Columbus, Ohio

March 23, 2016

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**NORTHERN LOCAL SCHOOL DISTRICT  
PERRY COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A-133 § .505  
JUNE 30, 2015**

**1. SUMMARY OF AUDITOR'S RESULTS**

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unmodified
<i>(d)(1)(ii)</i>	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(iii)</i>	Was there any reported material noncompliance at the financial statement level (GAGAS)?	Yes
<i>(d)(1)(iv)</i>	Were there any material internal control weaknesses reported for major federal programs?	Yes
<i>(d)(1)(iv)</i>	Were there any significant deficiencies in internal control reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Title I – Qualified All others - Unmodified
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510(a)?	Yes
<i>(d)(1)(vii)</i>	Major Programs (list): <ul style="list-style-type: none"> <li>• Child Nutrition Cluster, CFDA #'s 10.553 and 10.555</li> <li>• Title I Grants to Local Educational Agencies, CFDA # 84.010</li> <li>• Twenty-First Century Community Learning Centers, CFDA # 84.287</li> </ul>	
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	No

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

**FINDING NUMBER 2015-001**

**Noncompliance**

Ohio Rev. Code § 117.38 provides, in part, 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 Admin. Code § 117-2-03 further clarifies the requirements of Ohio Rev. Code § 117.38.

Ohio Admin. Code § 117-2-03(B) requires the School District to file its annual financial report pursuant to generally accepted accounting principles. However, the School District prepared its financial statements in accordance with standards established by the Auditor of State for governmental entities not required to prepare annual reports in accordance with generally accepted accounting principles. The accompanying financial statements and notes omit assets, liabilities, fund equities, and disclosures that, while material, cannot be determined at this time. Pursuant to Ohio Rev. Code § 117.38, the School District may be fined and subject to various other administrative remedies for its failure to file the required financial report.

**NORTHERN LOCAL SCHOOL DISTRICT  
PERRY COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A-133 § .505  
JUNE 30, 2015  
(Continued)**

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

**FINDING NUMBER 2015-001 (Continued)**

**Noncompliance – Ohio Rev. Code § 117.38 (Continued)**

The School District should take the necessary steps to ensure that the annual financial report is prepared on a generally accepted accounting principles basis.

**Officials' Response:** The District does not prepare GAAP statements because it is cost prohibitive.

**FINDING NUMBER 2015-002**

**Noncompliance**

Ohio Rev. Code § 5705.10(I) states that money paid into any fund shall be used only for the purposes for which such fund is established. Ohio Rev. Code § 3315.20 states that a school district may have a deficit in any special fund of the district only if both of the following conditions are satisfied:

- (A) The District has a request for payment pending with the state sufficient to cover the amount of the deficit and there is a reasonable likelihood that the payment will be made; and,
- (B) The unspent and unencumbered balance in the District's General Fund is greater than the aggregate of deficit amounts in all of the District's special funds.

We noted the following funds had negative cash fund balances at month-end for the selected dates tested:

<u>Date</u>	<u>Fund (No.)</u>	<u>Negative Fund Balance</u>
September 30, 2014	Food Service Fund (006)	\$269,453
	Self-Insurance Fund (024)	96,122
	Straight A Fund (466)	2,690,957
	Race to the Top Fund (506)	22,453
December 31, 2014	Permanent Improvement Fund (003)	684,203
	Food Service Fund (006)	175,719
	Self-Insurance Fund (024)	235,714
	Race to the Top Fund (506)	7,624
February 28, 2015	General/Budget Reserve (001)	279,612
	Permanent Improvement Fund (003)	727,684
	Food Service Fund (006)	165,634
	Self-Insurance Fund (024)	223,125
	Race to the Top Fund (516)	81,312

**NORTHERN LOCAL SCHOOL DISTRICT  
PERRY COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A-133 § .505  
JUNE 30, 2015  
(Continued)**

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

**FINDING NUMBER 2015-002 (Continued)**

**Noncompliance – Ohio Rev. Code § 5705,10(I)(Continued)**

In addition, the Self-Insurance Fund had a negative cash fund balance of \$133,133 reported on the District’s accounting system at the end of June 2015. The accompanying financial statements reflect a negative cash fund balance of \$206,072 as a result of journal entries related to reconciling items between the amount reflected on the District’s accounting system and the bank balance.

The aforementioned conditions were not met as sufficient outstanding requests were not in place to cover the entire deficit balance. Negative fund cash balances indicate that money from one fund was used to cover the expenses of the negative balance funds.

The Treasurer should monitor activity in the funds to ensure that money paid into funds are only being used for the purposes for which such funds are established.

**Officials’ Response:** Some funds, food service and self-funded insurance, are being corrected but it will take time. The General Fund cannot support a large contribution to these funds. Grant funding cash restrictions cause other negative balances.

**3. FINDINGS FOR FEDERAL AWARDS**

<b>Finding Number</b>	2015-003
<b>CFDA Title and Number</b>	Title I Grant – CFDA #84.010
<b>Federal Award Number / Year</b>	2015
<b>Federal Agency</b>	U.S. Department of Education
<b>Pass-Through Agency</b>	Ohio Department of Education

**Noncompliance and Material Weakness - Reporting**

34 C.F.R. Part 76.722 provides that a State may require a subgrantee to submit reports in a manner and format that assists the State in complying with the requirements under 34 C.F.R. Part 76.720 and in carrying out other responsibilities under the program.

The State of Ohio requires its subgrantees to submit final expenditure reports no later than 90 days after the end of the project period for programs contained in the Comprehensive Continuous Improvement Plan (CCIP) and no later than 60 days after the end of the project period for programs applied for using a paper process.

Additionally, Ohio Department of Education (ODE) final expenditure report instructions provide detail on how to complete the Final Expenditure Report (FER). The instructions indicate that all amounts reported on the final expenditure report must reconcile to the District’s accounting system used to prepare annual financial statements and that the District should report expenditures by object and function codes in the amount actually expended based upon the most currently approved project budget.

**NORTHERN LOCAL SCHOOL DISTRICT  
PERRY COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A-133 § .505  
JUNE 30, 2015  
(Continued)**

**3. FINDINGS FOR FEDERAL AWARDS (Continued)**

**FINDING NUMBER 2015-003 (Continued)**

**Noncompliance and Material Weakness – Reporting – 34 C.F.R. Part 76.722 (Continued)**

Additionally, the instructions indicate that total expenditures as reported on the final expenditure report cannot exceed the approved amount and this amount must agree with the expenditure grand total located on the final expenditure report.

For the 2015 Title I program, expenditure amounts reported on the District's Final Expenditure Report did not agree to the accounting system. Variances were noted as follows:

<u>Object</u>	<u>Expenditures reported on FER</u>	<u>FY 2015 Expenditures per BUDSUM</u>	<u>July - Sept. 2015 Expenditures per BUDSUM</u>	<u>Total Expenditures per Accounting System</u>	<u>Variance</u>
Salaries	\$301,330	\$299,835	\$142,566	\$442,401	(\$141,071)
Ret. Fringe Benefits	128,502	153,196	32,320	185,516	(57,014)
Purchased Services	30,399	30,399	0	30,399	0
Supplies	9,767	9,767	0	9,767	0
<b>Total</b>	<b>\$469,998</b>	<b>\$493,197</b>	<b>\$174,886</b>	<b>\$668,083</b>	<b>(\$198,085)</b>

The excess expenditures resulted in the cost center accounting for the 2015 Title I grant having a negative fund balance of \$49,789 as of June 30, 2015 and \$67,653 as of September 30, 2016 on the District's records. As of February 29, 2016, the District has not reconciled these variances to the accounting system and posted corrections to this cost center.

The District should only record federal transactions within federal object codes and ensure amounts reported on the final expenditure report reconcile to the District's accounting system as required by the Ohio Department of Education.

**Officials' Response:** See Corrective Action Plan.

**NORTHERN LOCAL SCHOOL DISTRICT  
PERRY COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS  
OMB CIRCULAR A-133 §.315(b)  
JUNE 30, 2015**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <b>Explain</b>
2014-001	A material noncompliance citation was issued under Ohio Rev. Code § 117.38 and Ohio Admin. Code § 117-2-03(B) as the District failed to prepare the annual financial report pursuant to generally accepted accounting principles.	No	Repeated in the Schedule of Findings as finding number 2015-001.
2014-002	A material noncompliance citation was issued under Ohio Rev. Code § 5705.10(I) for negative fund balances.	No	Repeated in the Schedule of Findings as finding number 2015-002.
2014-003	A material weakness was issued as adjustments were required to the District's financial statements to properly report original budgeted receipts and disbursements in the Straight A Grant Fund budgetary statement in accordance with GASB Statement No. 34.	Yes	
2014-004	A material weakness and noncompliance citation was issued regarding 7 C.F.R. Part 245.6a as the District did not select the required 3 percent of free and reduced price applications for verification and did not always maintain documentation to support eligibility status.	Yes	
2014-005	A material weakness and noncompliance citation was issued as a result of the District failing to comply with Ohio Department of Education project cash request instructions for certain amounts reported on project cash requests from the Twenty-First Century Grant.	Yes	

**NORTHERN LOCAL SCHOOL DISTRICT  
PERRY COUNTY**

**CORRECTIVE ACTION PLAN  
OMB CIRCULAR A-133 § .315(c)  
JUNE 30, 2015**

Finding Number	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person
2015-003	The District will ensure that only federal transactions will be reported within federal object codes to ensure that the final expenditure reports reconcile.	June 30, 2016	Treasurer





# Dave Yost • Auditor of State

**NORTHERN LOCAL SCHOOL DISTRICT**

**PERRY COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
MARCH 31, 2016**