



Dave Yost • Auditor of State

**NORTHWEST LOCAL SCHOOL DISTRICT
STARK COUNTY**

TABLE OF CONTENTS

TITLE	PAGE
Independent Auditor's Report	1
Management's Discussion and Analysis.....	5
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Position – Cash Basis	15
Statement of Activities – Cash Basis	16
Fund Financial Statements:	
Statement of Assets and Fund Cash Balances:-	
Governmental Funds.....	17
Statement of Cash Receipts, Cash Disbursements and Changes in Fund Balances	
Cash Basis - Governmental Funds.....	18
Statement of Cash Receipts, Cash Disbursements and Changes in	
Fund Balance – Budget and Actual (Non-GAAP Budgetary Basis) -	
General Fund.....	19
Statement of Fiduciary Net Position – Cash Basis -	
Fiduciary Funds	20
Statement of Changes in Fiduciary Net Position – Cash Basis -	
Fiduciary Funds	21
Notes to the Basic Financial Statements	23
Schedule of Receipts and Expenditures of Federal Awards.....	55
Notes to the Schedule of Receipts and Expenditures of Federal Awards	56
Independent Auditor's Report on Internal Control Over	
Financial Reporting and on Compliance and Other Matters	
Required by <i>Government Auditing Standards</i>	57
Independent Auditor's Report on Compliance with Requirements	
Applicable to Each Major Federal Program and on Internal Control Over	
Compliance Required by the Uniform Guidance.....	59
Schedule of Findings.....	63
Summary Schedule of Prior Audit Findings	67
Corrective Action Plan.....	68

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

Northwest Local School District
Stark County
2309 Locust Street South
Canal Fulton, Ohio 44614

To the Board of Education:

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with the cash accounting basis Note 2B 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, the major fund, and the aggregate remaining fund information of Northwest Local School District, Stark County, Ohio, as of June 30, 2016, and the respective changes in cash financial position and the budgetary comparison for the General Fund for the year then ended in accordance with the accounting basis described in Note 2B.

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 2B of the financial statements, which describes the basis applied to these statements. The financial statements are prepared on the cash basis of accounting, which is a basis other than generally accepted accounting principles. We did not modify our opinion regarding this matter.

Other Matters

Supplemental Information

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

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

The schedule is management's responsibility, and derives from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. We subjected this 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, and 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 & 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 December 16, 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

December 16, 2016

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**NORTHWEST LOCAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

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

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

Financial Highlights

Key financial highlights for fiscal year 2016 are as follows:

- The total net cash position of the District increased \$1,442,115 or 21.13% from fiscal year 2015.
- General cash receipts accounted for \$20,114,656 or 87.39% of all governmental activities cash receipts. Program specific cash receipts in the form of charges for services and sales, grants and contributions accounted for \$2,902,092 or 12.61% of total cash receipts of \$23,016,748.
- The District had \$21,574,633 in cash disbursements related to governmental activities; only \$2,902,092 of these cash disbursements were offset by program specific charges for services and sales, grants or contributions. General cash receipts supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$20,114,656 were adequate to provide for these programs.
- The District's only major governmental fund is the general fund. The general fund had \$19,720,771 in cash receipts and other financing sources and \$18,019,683 in cash disbursements. During fiscal year 2016, the general fund's cash balance increased from \$5,728,748 to \$7,429,836.

Using these Cash Basis Basic Financial Statements (BFS)

This annual report is presented in a format consistent with the presentation requirements of the Governmental Accounting Standards Board (GASB) Statement No. 34, as applicable to the District's cash basis of accounting. The District has elected to present its financial statements on the cash basis of accounting. This basis of accounting is a basis of accounting other than generally accepted accounting principles. Basis of accounting is a reference to when financial events are recorded, such as the timing for recognizing revenues, expenses, and the related assets and liabilities. Under the District's cash basis of accounting, receipts and disbursements and the related assets and liabilities are recorded when they result in cash transactions.

As a result of using the cash basis of accounting, certain assets and their related revenues (such as accounts receivable) and certain liabilities and their related expenses (such as accounts payable) are not recorded in the financial statements. Therefore, when reviewing the financial information and discussion within this report, the reader must keep in mind the limitations resulting from the use of the cash basis of accounting.

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

**NORTHWEST LOCAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

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

Reporting the District as a Whole

Statement of Net Position and the Statement of Activities

While this document contains the large number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2016?" The statement of net position - cash basis and the statement of activities - cash basis answer this question. These statements include only net position using the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. This basis of accounting will take into account only the current year's receipts and disbursements if the cash is actually received or paid.

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

The statement of net position - cash basis and the statement of activities - cash basis include the District's programs and services, including instruction, support services, operation and maintenance of facilities, pupil transportation, extracurricular activities, and food service operations.

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

Reporting the District's Most Significant Funds

Fund Financial Statements

The analysis of the District's major governmental funds begins on page 11. Fund financial reports provide detailed information about the District's major funds. The District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the District's most significant funds. The District's only major governmental fund is the general fund; all other governmental funds are considered non-major.

Governmental Funds

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

Since the District is reporting on the cash basis of accounting, there are no differences in the net cash position and fund cash balances or changes in net cash position and changes in fund cash balances. Therefore, no reconciliation is necessary between such financial statements. The governmental fund statements can be found on pages 17-19 of this report.

**NORTHWEST LOCAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

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

Reporting the District's Fiduciary Responsibilities

The District is the trustee, or fiduciary, for its scholarship programs. This activity is presented as a private-purpose trust fund. The District also acts in a trustee capacity as an agent for individuals. These activities are reported in an agency fund. All of the District's fiduciary activities are reported in separate statements of fiduciary net position - cash basis and statement of changes in fiduciary net position - cash basis on pages 20 and 21. These activities are excluded from the District's other financial statements because the assets cannot be utilized by the District to finance its operations.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 23-53 of this report.

The District as a Whole

The statement of net position - cash basis provides the perspective of the District as a whole. The table below provides a summary of the District's net cash position at June 30, 2016 and 2015.

	Net Cash Position	
	Governmental Activities <u>2016</u>	Governmental Activities <u>2015</u>
<u>Assets</u>		
Equity in pooled cash and cash equivalents	\$ 7,702,830	\$ 6,331,957
Cash with escrow agent	153	43,911
Restricted assets: cash in segregated accounts	<u>565,000</u>	<u>450,000</u>
Total assets	<u>8,267,983</u>	<u>6,825,868</u>
<u>Net cash position</u>		
Restricted	1,646,031	1,783,806
Unrestricted	<u>6,621,952</u>	<u>5,042,062</u>
Total net cash position	<u>\$ 8,267,983</u>	<u>\$ 6,825,868</u>

At June 30, 2016, the District's net cash position was \$8,267,983. A portion of this amount, or \$1,646,031, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net cash position of \$6,621,952 may be used to meet the District's ongoing obligations to its students and creditors.

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

**NORTHWEST LOCAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

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

	Change in Net Position	
	Governmental Activities <u>2016</u>	Governmental Activities <u>2015</u>
<u>Cash Receipts</u>		
Program cash receipts:		
Charges for services and sales	\$ 897,509	\$ 655,860
Operating grants and contributions	2,004,583	2,243,587
General cash receipts:		
Property taxes	8,019,881	7,904,059
Income taxes	2,921,582	2,985,529
Grants and entitlements	9,004,343	8,984,838
Investment earnings	21,324	3,693
Miscellaneous	<u>147,526</u>	<u>82,945</u>
Total cash receipts	<u>23,016,748</u>	<u>22,860,511</u>
<u>Cash disbursements</u>		
Program disbursements:		
Instruction:		
Regular	8,396,106	8,589,362
Special	2,878,273	3,162,546
Vocational	57,749	53,480
Other	204,033	199,767
Support services:		
Pupil	707,667	734,837
Instructional staff	172,754	168,621
Board of education	61,938	51,207
Administration	1,663,352	1,740,514
Fiscal	455,669	457,385
Operations and maintenance	2,221,668	2,133,627
Pupil transportation	1,179,489	1,035,700
Central	262,711	410,233
Food service operations	566,858	568,314
Other non-instructional services	112,169	81,625
Extracurricular activities	447,710	375,393
Facilities acquisition and construction	125,699	89,458
Principal retirement	1,374,482	1,378,141
Interest and fiscal charges	<u>686,306</u>	<u>683,471</u>
Total cash disbursements	<u>21,574,633</u>	<u>21,913,681</u>
Change in net cash position	1,442,115	946,830
Net cash position at beginning of year	<u>6,825,868</u>	<u>5,879,038</u>
Net cash position at end of year	<u>\$ 8,267,983</u>	<u>\$ 6,825,868</u>

**NORTHWEST LOCAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

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

Governmental Activities

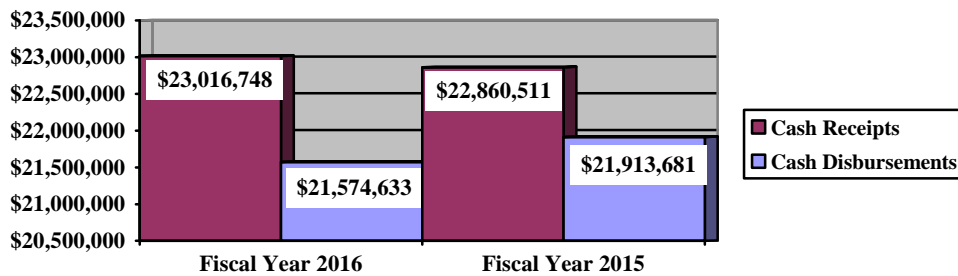
Net cash position of the District's governmental activities increased \$1,442,115. Total governmental cash disbursements of \$21,574,633 were offset by program cash receipts of \$2,902,092 and general cash receipts of \$20,114,656. Program cash receipts supported 13.45% of the total governmental disbursements.

Cash receipts in 2016 were generally consistent with the prior year; total cash receipts increased \$156,237 or 0.68%. The primary sources of receipts for governmental activities are derived from taxes and unrestricted grants and entitlements. These sources represent 86.66% of total governmental cash receipts. Charges for services receipts increased considerably due to an increase in net open enrollment receipts. Despite this increase, total program cash receipts were virtually unchanged compared to the prior year due to a decrease in operating grants and contributions. The decrease is primarily a result of a decline in federal grant receipts for the District's food service operations and special education (IDEA Part B) and disadvantaged children (Title I) programs.

The overall decrease in cash disbursements was \$339,048 or 1.55%. This is primarily a result of slight decreases in wages and benefits due to a reduction in staff and also in reimbursements to other educational agencies for services provided to district students (excess costs for special education programs, payments to community schools, etc.). The largest disbursement of the District is for instructional programs. Instruction disbursements totaled \$11,536,161 or 53.47% of total governmental cash disbursements for fiscal year 2016. Instruction disbursements decreased slightly due to decreased costs associated with the District's special education programs.

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

Governmental Activities - Cash Receipts and Cash Disbursements



The statement of activities shows the cost of program services and the charges for services and sales and grants offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax receipts and unrestricted grants and entitlements.

**NORTHWEST LOCAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

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

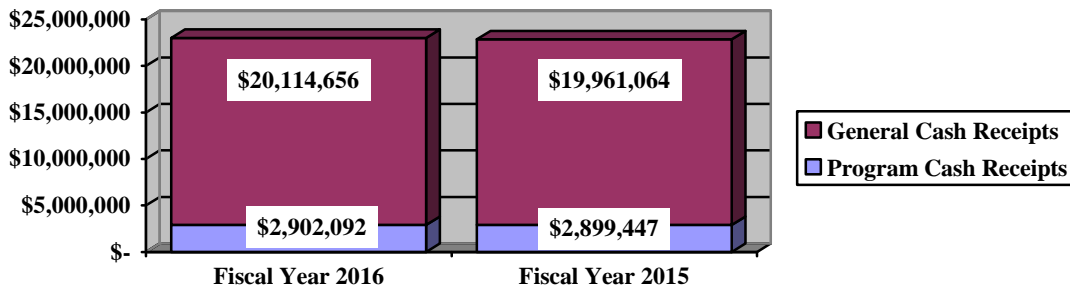
Governmental Activities

	Total Cost of Services <u>2016</u>	Net Cost of Services <u>2016</u>	Total Cost of Services <u>2015</u>	Net Cost of Services <u>2015</u>
Program cash disbursements				
Instruction:				
Regular	\$ 8,396,106	\$ 8,043,732	\$ 8,589,362	\$ 8,418,653
Special	2,878,273	1,330,327	3,162,546	1,558,332
Vocational	57,749	37,460	53,480	32,968
Other	204,033	204,033	199,767	199,767
Support services:				
Pupil	707,667	701,477	734,837	651,919
Instructional staff	172,754	172,754	168,621	168,621
Board of education	61,938	61,938	51,207	51,207
Administration	1,663,352	1,662,291	1,740,514	1,738,465
Fiscal	455,669	455,669	457,385	457,385
Operations and maintenance	2,221,668	2,220,212	2,133,627	2,132,852
Pupil transportation	1,179,489	1,126,903	1,035,700	985,955
Central	262,711	137,121	410,233	306,720
Food service operations	566,858	60,032	568,314	(19,838)
Other non-instructional services	112,169	(2,894)	81,625	(28,926)
Extracurricular activities	447,710	274,999	375,393	209,084
Facilities acquisition and construction	125,699	125,699	89,458	89,458
Principal retirement	1,374,482	1,374,482	1,378,141	1,378,141
Interest and fiscal charges	686,306	686,306	683,471	683,471
Total	<u>\$ 21,574,633</u>	<u>\$ 18,672,541</u>	<u>\$ 21,913,681</u>	<u>\$ 19,014,234</u>

The dependence upon general cash receipts for governmental activities is apparent; with 86.55% and 86.77% of cash disbursements supported through taxes and other general cash receipts during fiscal years 2016 and 2015, respectively.

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

Governmental Activities - General and Program Cash Receipts



**NORTHWEST LOCAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

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

The District's Funds

The District's governmental funds reported a combined fund cash balance of \$8,267,983, compared to last year's combined fund cash balance of \$6,825,868. The schedule below indicates the fund cash balance and the total change in fund cash balance as of June 30, 2016 and June 30, 2015, for all major and nonmajor governmental funds.

	Fund Cash Balance <u>June 30, 2016</u>	Fund Cash Balance <u>June 30, 2015</u>	Increase <u>(Decrease)</u>
General	\$ 7,429,836	\$ 5,728,748	\$ 1,701,088
Nonmajor governmental	<u>838,147</u>	<u>1,097,120</u>	<u>(258,973)</u>
Total	<u>\$ 8,267,983</u>	<u>\$ 6,825,868</u>	<u>\$ 1,442,115</u>

General Fund

The table that follows assists in illustrating the cash receipts and disbursements of the general fund.

	<u>2016 Amount</u>	<u>2015 Amount</u>	<u>Increase (Decrease)</u>	<u>Percentage Change</u>
<u>Cash Receipts</u>				
Property taxes	\$ 6,512,437	\$ 6,444,783	\$ 67,654	1.05 %
Income taxes	2,921,582	2,985,529	(63,947)	(2.14) %
Tuition	256,929	45,175	211,754	468.74 %
Earnings on investments	19,337	3,107	16,230	522.37 %
Intergovernmental	9,737,438	9,688,765	48,673	0.50 %
Other	<u>241,167</u>	<u>216,144</u>	<u>25,023</u>	11.58 %
Total	<u>\$ 19,688,890</u>	<u>\$ 19,383,503</u>	<u>\$ 305,387</u>	1.58 %
<u>Cash Disbursements</u>				
Instruction	\$ 10,802,574	\$ 11,204,858	\$ (402,284)	(3.59) %
Support services	6,473,155	6,332,540	140,615	2.22 %
Operation of non-instructional services	1,260	1,565	(305)	(19.49) %
Extracurricular activities	300,519	240,859	59,660	24.77 %
Debt service	<u>442,175</u>	<u>438,462</u>	<u>3,713</u>	0.85 %
Total	<u>\$ 18,019,683</u>	<u>\$ 18,218,284</u>	<u>\$ (198,601)</u>	(1.09) %

Overall, both cash receipts and cash disbursements for the general fund were comparable to the prior year. The significant increase in tuition cash receipts is mostly due to additional open enrollment receipts, which are reimbursements from other school districts for their students attending classes within the District. Earnings on investments also increased considerably due to additional available cash on hand which the District was able to invest in securities with higher interest rates. Most of the decrease in instruction disbursements is a result of decreased costs associated with the District's special education programs. Support services disbursements increased, however, primarily due to maintenance and repairs on the District's stadium. Extracurricular activities disbursements increased as the District began constructing a new softball field in fiscal year 2016.

**NORTHWEST LOCAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

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

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, disbursements and encumbrances. The most significant budgeted fund is the general fund.

For the general fund, original and final estimated budgetary basis receipts and other financing sources were \$19,672,178. The actual budgetary basis receipts and other financing sources were \$19,592,656 or \$79,522 less than the final budget. Actual intergovernmental receipts from the state were \$706,194 less than budgeted due to a reduction in Foundation Program funding. Significant positive variances between actual and final budget include property taxes (\$312,386) and tuition (\$216,929). The variance in property taxes is a result of the District conservatively budgeting 2016 collections, while actual tuition receipts were higher than anticipated due to an increase in open enrollment students.

Original budgetary basis disbursements of \$19,117,004 were increased to \$19,682,004 in the final budget, mostly to account for repairs at the District's stadium. The actual budgetary basis disbursements of \$18,773,153 were \$908,851 less than the final budget estimates. The variances between the final budget and actual amounts are primarily a result of the District budgeting for a "worst case scenario" to account for unexpected increases in the actual costs of its programs.

Capital Assets and Debt Administration

Capital Assets

The District does not record capital assets in the accompanying cash basis basic financial statements, but records payments for capital assets as disbursements. The District had facilities acquisition and construction disbursements of \$125,699 during fiscal year 2016.

Debt Administration

At June 30, 2016, the District had \$14,756,171 in general obligation bonds, a \$1,715,000 energy conservation note and \$2,445,651 in lease-purchase agreements outstanding. Of the total outstanding debt, \$1,179,790 is due within one year and \$17,737,032 is due in more than one year. Total debt additions during the year were \$135,202 and reductions were \$1,406,761.

The following table summarizes the District's outstanding debt.

Outstanding Debt at Year End

	Governmental Activities <u>2016</u>	Governmental Activities <u>2015</u>
General obligation bonds	\$ 14,756,171	\$ 15,573,470
Energy conservation note	1,715,000	1,715,000
Lease-purchase agreements	2,445,651	2,652,412
Income tax anticipation notes	-	247,499
Total	<u>\$ 18,916,822</u>	<u>\$ 20,188,381</u>

See Notes 8 through 10 in the notes to the basic financial statements for additional information on the District's debt administration.

**NORTHWEST LOCAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

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

Current Financial Related Activities

The Ohio Department of Education requires that each school district prepare and submit a revenue and expenditure projection each May and October. The Five Year Forecast presents a three year historical look at what the District's revenues and expenditures were and then forecasts what we believe our anticipated revenues and expenditures will be for the next five years. In the five year forecast that was prepared in October of 2015, amounts for fiscal year 2016 expenditures included an allocation for busses and an amount to build a softball field. In the following years the District planned to purchase additional busses, upgrade the district's technology infrastructure, make some repairs in the stadium, and replace some maintenance vehicles. Events have taken place this year forcing us to accelerate some of these expenditures. The expenditures were planned and included in the forecast for later years so what we have done is just move the expenditures up to this fiscal year and reduced the expenditure amount in the original year planned.

The first accelerated expenditure was work done in the stadium. We have had a problem with water draining onto the track. This has caused the track surface to heave and start to peel off. The track oval was also wavy and approaching the end of its life. In addition, the recent cold winters have caused the retaining wall to develop some cracking and integrity issues. District Administration began talking about the issues and how and when to fix them and at the time determined that the project should be planned to happen in fiscal year 2017. It was determined that for the project to be finished before the next school year started we should start the project before July 1st, which is the beginning of the next fiscal year. To do this we needed to move the budgeted dollar amount into fiscal year 2016.

Our second accelerated project was the purchase of two handicap busses. We have two handicap busses that were purchased in 2004. One of the busses has over 250,000 miles on it and the other has over 275,000 miles. Both busses were inspected by the highway patrol last year and passed the inspection. However the patrol did notify us of some problems that were appearing and would need to be addressed before this year's inspection. We investigated ways to fix each bus so that they would be safe and pass inspection and found that to properly fix each bus would cost approximately \$10,000 - \$14,000 per bus. Again, after discussing the situation it was reasoned that to invest that much money into busses that were already 12 years old, with that many miles was not a prudent decision. We decided to put those dollars toward new busses which were already budgeted; one was to be purchased in fiscal year 2017 and the other in fiscal year 2018. The busses are ordered and are due to arrive in early August for the start of school.

Also in fiscal year 2016 the Northwest Local Schools Board of Education voted to place a renewal levy on the March 15, 2016 ballot. The levy was originally passed in 1992 and provides the general fund with \$1,500,000 annually. This levy is a specific amount levy and will raise the dollar amount stated on the ballot no matter what the residential and agricultural values are in the school district. In 1992 when this levy was first passed the total value of all the homes and agricultural land in the Northwest School District was slightly under \$110,000,000. To raise the \$1,500,000 requested on the original ballot the millage was set at 12.8. In March the new millage was placed at 6.1 mills. The levy passed and was renewed for 10 years by a vote of 2,532 residents for the renewal and 2,034 residents against the renewal.

Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information contact Dan Levengood, Treasurer, Northwest Local School District, 2309 Locust Street S., Canal Fulton, Ohio 44614.

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**NORTHWEST LOCAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

STATEMENT OF NET POSITION - CASH BASIS
JUNE 30, 2016

	Governmental Activities
Assets:	
Equity in pooled cash and cash equivalents	\$ 7,702,830
Cash with escrow agent	153
Restricted assets:	
Cash in segregated accounts	565,000
Total assets.	8,267,983
 Net cash position:	
Restricted for:	
Capital projects	3,839
Classroom facilities maintenance	134,103
Debt service.	1,276,576
State funded programs.	85,856
Federally funded programs	50,447
Food service operations	95,210
Unrestricted	6,621,952
Total net cash position.	\$ 8,267,983

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**NORTHWEST LOCAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

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

	<u>Cash Disbursements</u>	<u>Program Cash Receipts</u>		<u>Net Receipts (Disbursements) and Changes in Net Cash Position Governmental Activities</u>
		<u>Charges for Services and Sales</u>	<u>Operating Grants and Contributions</u>	
Governmental activities:				
Instruction:				
Regular	\$ 8,396,106	\$ 267,253	\$ 85,121	\$ (8,043,732)
Special	2,878,273	45,964	1,501,982	(1,330,327)
Vocational	57,749	-	20,289	(37,460)
Other	204,033	-	-	(204,033)
Support services:				
Pupil.	707,667	-	6,190	(701,477)
Instructional staff	172,754	-	-	(172,754)
Board of education	61,938	-	-	(61,938)
Administration.	1,663,352	-	1,061	(1,662,291)
Fiscal.	455,669	-	-	(455,669)
Operations and maintenance	2,221,668	1,456	-	(2,220,212)
Pupil transportation	1,179,489	-	52,586	(1,126,903)
Central	262,711	94,911	30,679	(137,121)
Operation of non-instructional services:				
Food service operations	566,858	318,071	188,755	(60,032)
Other non-instructional services	112,169	897	114,166	2,894
Extracurricular activities	447,710	168,957	3,754	(274,999)
Facilities acquisition and construction	125,699	-	-	(125,699)
Principal retirement.	1,374,482	-	-	(1,374,482)
Interest and fiscal charges.	686,306	-	-	(686,306)
Total governmental activities.	\$ 21,574,633	\$ 897,509	\$ 2,004,583	(18,672,541)

General cash receipts:

Property taxes levied for:	
General purposes	6,512,437
Debt service.	1,174,571
Capital projects	193,518
Special revenue	139,355
School District income tax	2,921,582
Grants and entitlements not restricted to specific programs.	
Investment earnings	21,324
Miscellaneous	147,526
Total general cash receipts	20,114,656
Change in net cash position.	1,442,115
Net cash position at beginning of year	6,825,868
Net cash position at end of year	\$ 8,267,983

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**NORTHWEST LOCAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

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

	General	Nonmajor Governmental Funds	Total Governmental Funds
Assets:			
Equity in pooled cash and cash equivalents.	\$ 6,864,836	\$ 837,994	\$ 7,702,830
Cash with escrow agent	-	153	153
Restricted assets:			
Cash in segregated accounts	565,000	-	565,000
Total assets	\$ 7,429,836	\$ 838,147	\$ 8,267,983
 Fund cash balances:			
Restricted:			
Debt service	\$ 565,000	\$ 711,576	\$ 1,276,576
Capital improvements	-	3,839	3,839
Classroom facilities maintenance	-	134,103	134,103
Food service operations	-	95,210	95,210
Non-public schools	-	85,856	85,856
Targeted academic assistance	-	49,764	49,764
Other purposes	-	683	683
Committed:			
Capital improvements	-	42,905	42,905
Assigned:			
Student instruction	230,427	-	230,427
Student and staff support	589,164	-	589,164
School supplies	32	-	32
Unassigned (deficit).	6,045,213	(285,789)	5,759,424
Total fund cash balances	\$ 7,429,836	\$ 838,147	\$ 8,267,983

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**NORTHWEST LOCAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

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

	<u>General</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Cash receipts:			
From local sources:			
Property taxes	\$ 6,512,437	\$ 1,507,444	\$ 8,019,881
Income taxes	2,921,582	-	2,921,582
Tuition	256,929	-	256,929
Earnings on investments	19,337	2,434	21,771
Charges for services	-	318,071	318,071
Extracurricular	135,302	107,008	242,310
Classroom materials and fees	56,288	-	56,288
Other local revenues	49,577	26,209	75,786
Intergovernmental - intermediate	98,493	-	98,493
Intergovernmental - state	9,560,464	377,675	9,938,139
Intergovernmental - federal	78,481	957,136	1,035,617
Total cash receipts	<u>19,688,890</u>	<u>3,295,977</u>	<u>22,984,867</u>
Cash disbursements:			
Current:			
Instruction:			
Regular	8,306,917	89,189	8,396,106
Special	2,233,875	644,398	2,878,273
Vocational	57,749	-	57,749
Other	204,033	-	204,033
Support services:			
Pupil	700,373	7,294	707,667
Instructional staff	172,754	-	172,754
Board of education	61,938	-	61,938
Administration	1,662,347	1,005	1,663,352
Fiscal	428,974	26,695	455,669
Operations and maintenance	2,004,569	217,099	2,221,668
Pupil transportation	1,179,489	-	1,179,489
Central	262,711	-	262,711
Operation of non-instructional services:			
Food service operations	-	566,858	566,858
Other non-instructional services	1,260	110,909	112,169
Extracurricular activities	300,519	147,191	447,710
Facilities acquisition and construction	-	125,699	125,699
Debt service:			
Principal retirement	314,482	1,060,000	1,374,482
Interest and fiscal charges	127,693	558,613	686,306
Total cash disbursements	<u>18,019,683</u>	<u>3,554,950</u>	<u>21,574,633</u>
Excess (deficiency) of cash receipts over (under) cash disbursements	<u>1,669,207</u>	<u>(258,973)</u>	<u>1,410,234</u>
Other financing sources (uses):			
Proceeds from sale of assets	31,881	-	31,881
Transfers in	-	16,976	16,976
Transfers (out)	-	(16,976)	(16,976)
Total other financing sources (uses)	<u>31,881</u>	<u>-</u>	<u>31,881</u>
Net change in fund cash balances	1,701,088	(258,973)	1,442,115
Fund cash balances at beginning of year . . .	<u>5,728,748</u>	<u>1,097,120</u>	<u>6,825,868</u>
Fund cash balances at end of year	<u>\$ 7,429,836</u>	<u>\$ 838,147</u>	<u>\$ 8,267,983</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**NORTHWEST LOCAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

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, 2016

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Budgetary basis receipts:				
From local sources:				
Property taxes	\$ 6,200,051	\$ 6,200,051	\$ 6,512,437	\$ 312,386
Income taxes	2,957,988	2,957,988	2,921,582	(36,406)
Tuition	40,000	40,000	256,929	216,929
Earnings on investments	2,000	2,000	19,337	17,337
Extracurricular	38,000	38,000	39,494	1,494
Classroom materials and fees	61,000	61,000	56,288	(4,712)
Other local revenues	8,000	8,000	17,270	9,270
Intergovernmental - intermediate	20,000	20,000	98,493	78,493
Intergovernmental - state	10,266,658	10,266,658	9,560,464	(706,194)
Intergovernmental - federal	78,481	78,481	78,481	-
Total budgetary basis receipts	<u>19,672,178</u>	<u>19,672,178</u>	<u>19,560,775</u>	<u>(111,403)</u>
Budgetary basis disbursements:				
Current:				
Instruction:				
Regular	8,710,688	8,710,688	8,346,292	364,396
Special	2,500,906	2,500,906	2,424,927	75,979
Vocational	101,000	101,000	57,749	43,251
Other	208,000	208,000	204,033	3,967
Support services:				
Pupil	710,330	710,330	700,373	9,957
Instructional staff	195,000	195,000	172,754	22,246
Board of education	68,000	68,000	61,938	6,062
Administration	1,718,740	1,718,740	1,662,968	55,772
Fiscal	441,000	441,000	431,598	9,402
Operations and maintenance	1,921,010	2,486,010	2,372,955	113,055
Pupil transportation	1,492,349	1,492,349	1,452,944	39,405
Central	232,974	232,974	129,370	103,604
Extracurricular activities	315,500	315,500	300,519	14,981
Debt service:				
Principal	365,221	365,221	365,000	221
Interest and fiscal charges	136,286	136,286	89,733	46,553
Total budgetary basis disbursements	<u>19,117,004</u>	<u>19,682,004</u>	<u>18,773,153</u>	<u>908,851</u>
Excess of budgetary basis receipts over budgetary basis disbursements	<u>555,174</u>	<u>(9,826)</u>	<u>787,622</u>	<u>797,448</u>
Other financing sources:				
Proceeds from sale of assets	-	-	31,881	31,881
Total other financing sources	<u>-</u>	<u>-</u>	<u>31,881</u>	<u>31,881</u>
Net change in fund cash balance	555,174	(9,826)	819,503	829,329
Fund cash balance at beginning of year	5,053,052	5,053,052	5,053,052	-
Prior year encumbrances appropriated	172,658	172,658	172,658	-
Fund cash balance at end of year	<u>\$ 5,780,884</u>	<u>\$ 5,215,884</u>	<u>\$ 6,045,213</u>	<u>\$ 829,329</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**NORTHWEST LOCAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

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

	Private Purpose Trust	
	Scholarship	Agency
Assets:		
Equity in pooled cash and cash equivalents	\$ 505	\$ 97,843
Total assets.	505	\$ 97,843
Liabilities:		
Due to students.	-	\$ 97,843
Total liabilities	-	\$ 97,843
Net cash position:		
Held in trust for scholarships	505	
Total net cash position.	\$ 505	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**NORTHWEST LOCAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

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

	<u>Private Purpose Trust</u>
	<u>Scholarship</u>
Net cash position at beginning of year.	\$ 505
Net cash position at end of year	<u>\$ 505</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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**NORTHWEST LOCAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

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

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT

The Northwest Local School District (the "District") is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The District is a local district as defined by Section 3311.03 of the Ohio Revised Code. The District is governed by a five-member board of education (the Board) elected by its citizens, which is responsible for the provision of public education to residents of the District.

The District employs 82 non-certified and 143 certified employees to provide services to approximately 1,941 students in grades K through 12 and various community groups. The District operates two elementary schools, one middle school and a high school.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

As discussed in Note 2.B., these financial statements are presented on the cash basis of accounting. The cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements. In cases where these cash basis statements contain items that are the same as, or similar to, those items in financial statements prepared in conformity with GAAP, similar informative disclosures are provided.

A. Reporting Entity

The reporting entity has been defined in accordance with GASB Statement No. 14, "The Financial Reporting Entity" as amended by GASB Statement No. 39, "Determining Whether Certain Organizations Are Component Units" and GASB Statement No. 61, "The Financial Reporting Entity: Omnibus an Amendment of GASB Statements No. 14 and No. 34". The reporting entity is composed of the primary government and component units. 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 of the District.

Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the organization's Governing Board and (1) the District is able to significantly influence the programs or services performed or provided by the organization; or (2) the District is legally entitled to or can otherwise access the organization's resources; or (3) the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or (4) the District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the District in that the District approves the budget, the issuance of debt or the levying of taxes. Certain organizations are also included as component units if the nature and significance of the relationship between the primary government and the organization is such that exclusion by the primary government would render the primary government's financial statements incomplete or misleading. Based upon the application of these criteria, the District has no component units. The basic financial statements of the reporting entity include only those of the District (the primary government).

**NORTHWEST LOCAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

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

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

The following organizations are described due to their relationship to the District:

JOINTLY GOVERNED ORGANIZATIONS

Stark/Portage Area Computer Consortium (SPARCC)

SPARCC is a jointly governed organization created as a regional council of governments pursuant to State Statutes made up of public school districts and county boards of education from Stark, Portage, and Carroll Counties. The primary function of SPARCC is to provide data processing services to its member districts with an emphasis being placed on accounting, inventory control and payroll services. Other areas of service provided by SPARCC include student scheduling, registration, grade reporting, and test scoring. Each member district pays an annual fee for the services provided by SPARCC.

SPARCC is governed by a Board of Directors comprised of each Superintendent within the Consortium. The Stark County Educational Service Center serves as the fiscal agent of the Consortium and receives funding from the State Department of Education. Each district has one vote in all matters and each member district's control over budgeting and financing of SPARCC is limited to its voting authority and any representation it may have on the Board of Directors. The continued existence of SPARCC is not dependent on the District's continued participation and no equity interest exists. Payments to SPARCC are made from the general fund, and amounted to \$97,406 during fiscal year 2016. Financial information can be obtained by writing the Stark/Portage Area Computer Consortium, 2100 38th Street NW, Canton, Ohio 44709.

Stark County Area Vocational School District (JVS)

The JVS is a distinct political subdivision of the State of Ohio operated under the direction of a seven member Board, consisting of one representative from each of the six participating districts' Boards and one Board Member that rotates from each participating district, and has its own budgeting and taxing authority. The JVS provides vocational education programs to students of the District. The financial information can be obtained by writing the Stark County Joint Vocational School, 2800 Richville Drive, S.E., Massillon, Ohio 44646.

PUBLIC ENTITY RISK POOLS

Risk Sharing Pool

The Stark County Schools Council of Governments Health Benefit Plan (the "Consortium") is a shared risk pool created pursuant to State statute for the purpose of administering health care benefits. The consortium is governed by an assembly which consists of one representative from each participating school district (usually the superintendent or designee). The assembly elects officers for one year terms to serve on the Board of Directors. The assembly exercises control over the operation of the Consortium. All Consortium revenues are generated from charges for services. Financial information can be obtained by writing to the Stark County Educational Service Center, 2100 38th Street NW, Canton, Ohio, 44709.

Insurance Purchasing Pool

The Stark County Schools Council of Governments Workers' Compensation Group Rating Plan has created a group insurance pool for the purpose of creating a group rating plan for workers' compensation. The group is comprised of the treasurers of the member schools who have been appointed by the respective governing body of each member school.

**NORTHWEST LOCAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

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

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

The intent of the pool is to achieve a reduced rate for the District by grouping with other members of the group. The injury claim histories of all participating members are used to calculate a common rate for the group. An annual fee is paid to CompManagement, Inc. to administer the group and to manage any injury claims. Premium savings created by the group are prorated to each member annually based on its payroll percent of the group.

B. Basis of Accounting

Although required by Ohio Administrative Code § 117-2-03(B) to prepare its annual financial report in accordance with GAAP, the District chooses to prepare its financial statements and notes on the cash basis of accounting. The cash basis of accounting is a comprehensive basis of accounting other than GAAP. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred.

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

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

C. Fund Accounting

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

GOVERNMENTAL FUNDS

Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. The following are the District's major governmental funds:

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

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

**NORTHWEST LOCAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

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

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

PROPRIETARY FUNDS

Proprietary funds are used to account for the District's ongoing activities which are similar to those often found in the private sector. The District has no proprietary funds.

FIDUCIARY FUNDS

Fiduciary fund reporting focuses on net cash position and changes in net cash position. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to account for cash assets held by the District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the District's own programs. The District's only trust fund is a private-purpose trust which accounts for donated monies restricted to provide college scholarship assistance to District graduates. Agency funds are custodial in nature and do not involve measurement of results of operations. The District's agency fund accounts for student activities.

D. Basis of Presentation

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

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

E. Budgets

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the alternate tax budget, the certificate of estimated resources, and the appropriation resolution, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriations resolution are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified. All funds, other than agency funds, are legally required to be budgeted and appropriated. The legal level of budgetary control has been established at the first digit of the object for all functions for the general fund and at the fund level for all other funds. Any budgetary modifications at this level may only be made by resolution of the Board of Education. Although the legal level of budgetary control was established at the first digit of the object for all functions for the general fund, the District has elected to present the general fund's budgetary statement comparison at the fund and function level of expenditures.

**NORTHWEST LOCAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

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

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

Tax Budget:

On October 25, 2005, the Stark County Budget Commission voted to waive the requirement that school districts adopt a tax budget as required by Section 5705.28 of the Ohio Revised Code, by January 15th and the filing by January 20th. The Budget Commission now requires an alternate tax budget be submitted by January 20th, which no longer requires specific Board approval.

Estimated Resources:

By April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the Commission's certificate of estimated resources, which states the projected revenue of each fund. Prior to July 1, the District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the certificate of estimated resources. The revised budget then serves as the basis for the appropriation measure. On or about July 1, the certificate is amended to include any unencumbered cash balances from the preceding year. The certificate may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The amounts reported in the budgetary statements reflect the amounts from the certificate of estimated resources that was in effect at the time the original and final appropriations were passed by the Board of Education.

Appropriations:

Upon receipt from the County Auditor of an amended certificate of estimated resources based on final assessed values and tax rates or a certificate saying no new certificate is necessary, the annual appropriation resolution is enacted by the Board of Education. Prior to the passage of the annual appropriation measure, the Board may pass a temporary appropriation measure to meet the ordinary expenses of the District. The appropriation resolution, at the fund level for all funds, must be within the estimated resources as certified by the County Budget Commission and the total of expenditures may not exceed the appropriation totals at any level of control. Any revisions that alter the level of budgetary control must be approved by the Board of Education.

The Board may pass supplemental fund appropriations so long as the total appropriations by fund do not exceed the amounts set forth in the most recent certificate of estimated resources. During the year, all supplemental appropriations were legally enacted.

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

Lapsing of Appropriations:

At the close of each fiscal year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriation. Encumbered appropriations are carried forward to the succeeding fiscal year and are not reappropriated.

**NORTHWEST LOCAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

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

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

F. Cash and Investments

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

During fiscal year 2016, investments were limited to investments in negotiable certificates of deposit, U.S. Government money market accounts and the State Treasury Asset Reserve of Ohio (STAR Ohio). Except for nonparticipating investment contracts, investments are reported at fair value, which is based on quoted market prices.

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

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund. The Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2016 amounted to \$19,337, which includes \$886 assigned from other District funds.

For presentation on the basic financial statements, investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the District are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

An analysis of the District's investment account at fiscal year end is provided in Note 4.

G. Capital Assets

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

H. Unpaid Vacation and Sick Leave

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

I. Long-Term Obligations

Bonds and other long-term obligations are not recognized as a liability in the financial statements under the cash basis of accounting. These statements report proceeds of debt when cash is received, and debt service disbursements for debt principal payments.

**NORTHWEST LOCAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

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

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

J. Fund Cash Balance

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

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

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

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

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

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

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

K. Net Cash Position

Net cash position is reported as restricted when enabling legislation or creditors, grantors or laws or regulations of other governments have imposed limitations on its use. The District first applies restricted resources when a disbursement is incurred for purposes for which both restricted and unrestricted net cash position is available. The District did not have any assets restricted by enabling legislation at June 30, 2016.

**NORTHWEST LOCAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

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

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

L. Interfund Activity

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

M. Restricted Assets

Assets are reported as restricted assets when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments or imposed by enabling legislation. See Notes 9.A. and 4.C. for further detail on restricted assets related to energy conservation note sinking fund deposits maintained by the District.

N. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal year 2016.

O. Pensions

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

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principles

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

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

**NORTHWEST LOCAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

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

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

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

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

GASB Statement No. 79 establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. The implementation of GASB Statement No. 79 did not have an effect on the financial statements of the District.

B. Compliance

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

C. Deficit Fund Balances

Fund balances at June 30, 2016 included the following individual fund deficits:

<u>Nonmajor funds</u>	<u>Deficit</u>
Other grants	\$ 3,221
District managed student activity	68,485
Title VI-B	42,646
Miscellaneous federal grants	683
Building	170,754

The general fund is liable for any deficits in these funds and provides transfers when cash is required. These funds did not comply with State law which does not allow for a negative cash balance at year end.

**NORTHWEST LOCAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

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

NOTE 4 - DEPOSITS AND INVESTMENTS

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

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

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

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

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

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

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

**NORTHWEST LOCAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

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

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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

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

A. Cash on Hand

At fiscal year end, the District had \$5,500 in undeposited cash on hand which is included on the financial statements of the District as part of "equity in pooled cash and cash equivalents".

B. Cash with Escrow Agent

The District has money held in accounts by other agents for retainage related to construction contracts. The money held by the escrow agent cannot be identified as an investment or deposit, since it is held in a pool made up of numerous participants. The amount held by the escrow agent at June 30, 2016 was \$153 and is not included in "deposits with financial institutions" below.

C. Cash in Segregated Accounts

At fiscal year end, \$565,000 was on deposit with an escrow agent for required sinking fund deposits relating to the District's energy conservation notes. These funds are not included in "deposits with financial institutions" below.

D. Deposits with Financial Institutions

At June 30, 2016, the carrying amount of all District deposits was \$3,894,376. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2016, \$3,775,002 of the District's bank balance of \$4,275,002 was exposed to custodial risk as discussed below, while \$500,000 was covered by the FDIC.

Custodial credit risk is the risk that, in the event of bank failure, the District's deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the District. The District has no deposit policy for custodial credit risk beyond the requirements of State statute. Although the securities were held by the pledging institutions' trust department and all statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the District to a successful claim by the FDIC.

**NORTHWEST LOCAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

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

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

E. Investments

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

<u>Investment type</u>	<u>Carrying Value</u>	<u>Fair Value</u>	<u>Investment maturity</u>				
			<u>6 months or less</u>	<u>7 to 12 months</u>	<u>13 to 18 months</u>	<u>19 to 24 months</u>	<u>More than 24 months</u>
Negotiable CDs	\$ 1,942,070	\$ 1,944,879	\$ 250,060	\$ 746,439	\$ 251,118	\$ 498,548	\$ 198,714
STAR Ohio	1,948,852	1,948,852	1,948,852	-	-	-	-
U.S. Government money market	10,380	10,380	10,380	-	-	-	-
Total	\$ 3,901,302	\$ 3,904,111	\$ 2,209,292	\$ 746,439	\$ 251,118	\$ 498,548	\$ 198,714

The weighted average maturity of investments is 0.60 years.

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

Credit Risk: STAR Ohio was rated AAAM by Standard & Poor's. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service.

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

<u>Investment type</u>	<u>Carrying Value</u>	<u>% to Total</u>
Negotiable CDs	\$ 1,942,070	49.78
STAR Ohio	1,948,852	49.95
U.S. Government money market	10,380	0.27
Total	\$ 3,901,302	100.00

**NORTHWEST LOCAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

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

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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

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

<u>Cash and investments per note</u>	
Carrying amount of deposits	\$ 3,894,376
Investments	3,901,302
Cash with escrow agent	153
Cash in segregated accounts	565,000
Cash on hand	<u>5,500</u>
Total	<u>\$ 8,366,331</u>
 <u>Cash and investments per statement of net position</u>	
Governmental activities	\$ 8,267,983
Private-purpose trust fund	505
Agency fund	<u>97,843</u>
Total	<u>\$ 8,366,331</u>

NOTE 5 - INTERFUND TRANSACTIONS

Interfund transfers for the year ended June 30, 2016, consisted of \$16,976 from the building fund to the debt service fund, both of which are nonmajor governmental funds. The District issued energy conservation notes in fiscal year 2011 (see Note 9). The project is complete and the District transferred the unspent note proceeds to the debt service fund. Transfers between governmental funds are eliminated on the government-wide financial statements.

NOTE 6 - PROPERTY TAXES

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

Property taxes include amounts levied against all real property and public utility property. Real property tax revenues received in calendar year 2016 represent the collection of calendar year 2015 taxes. Real property taxes received in calendar year 2016 were levied after April 1, 2015, on the assessed values as of January 1, 2015, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established. Public utility property tax revenues received in calendar year 2016 represent the collection of calendar year 2015 taxes. Public utility real and personal property taxes received in calendar year 2016 became a lien on December 31, 2014, were levied after April 1, 2015, and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

**NORTHWEST LOCAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

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

NOTE 6 - PROPERTY TAXES - (Continued)

The District receives property taxes from Stark, Summit and Wayne Counties. The County Auditors/Fiscal Officer periodically advance to the District its portion of the taxes collected. Second-half real property tax payments collected by the Counties by June 30, 2016 are available to finance fiscal year 2016 operations. The amount of second-half real property taxes available for advance at fiscal year-end can vary based on the date the tax bills are sent.

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

	2015 Second Half Collections		2016 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and other real estate	\$ 227,277,350	94.10	\$ 250,181,500	93.87
Public utility personal	<u>14,251,180</u>	<u>5.90</u>	<u>16,335,980</u>	<u>6.13</u>
Total	<u>\$ 241,528,530</u>	<u>100.00</u>	<u>\$ 266,517,480</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation for:				
Operations	\$49.10		\$48.50	
Permanent improvements	1.50		1.50	
Debt service	5.40		5.20	

NOTE 7 - INCOME TAX

Effective January 1, 2011, the District levies a voted tax of 1% for general obligations on the earned income of residents and of estates. Employers of residents are required to withhold income tax on compensation and remit the tax to the State. Taxpayers are required to file an annual return. The State makes quarterly distributions to the District after withholding amounts for administrative fees and estimated refunds. Income tax receipts are credited to the general fund and totaled \$2,921,582 for fiscal year 2016.

NOTE 8 - LEASE-PURCHASE AGREEMENT - LESSEE DISCLOSURE

On August 16, 2007, the District entered into a \$1,318,000 lease-purchase agreement with the Columbus Regional Airport Authority to finance the acquisition of a bus garage. On August 6, 2009, the District entered into a lease-purchase agreement with the Columbus Regional Airport Authority to finance improvements to the District's buildings. On July 1, 2014, the District entered into a lease-purchase agreement to acquire five school buses. Lease payments are reflected as debt service disbursements in the financial statements for the governmental funds. Principal payments in fiscal year 2016 totaled \$96,761 and \$110,000, paid by the permanent improvement fund (a non-major governmental fund) and the general fund, respectively.

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

**NORTHWEST LOCAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

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

NOTE 8 - LEASE-PURCHASE AGREEMENT - LESSEE DISCLOSURE - (Continued)

Fiscal Year Ending <u>June 30,</u>	<u>Amount</u>
2017	\$ 322,973
2018	323,257
2019	219,836
2020	219,591
2021	220,034
2022 - 2026	1,098,056
2027 - 2031	783,209
2032	<u>114,630</u>
Total	3,301,586
Less: amount representing interest	<u>(855,935)</u>
Present value of minimum lease payments	<u>\$ 2,445,651</u>

**NORTHWEST LOCAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

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

NOTE 9 - LONG-TERM OBLIGATIONS

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

	Balance Outstanding <u>6/30/15</u>	<u>Additions</u>	<u>Deletions</u>	Balance Outstanding <u>6/30/16</u>	Amount Due in <u>One Year</u>
Governmental activities:					
<u>General obligation bonds:</u>					
Series 2010, Refunding					
Current Interest Bonds	\$ 2,730,000	\$ -	\$ (40,000)	\$ 2,690,000	\$ 40,000
Capital Appreciation Bonds	78,682	-	-	78,682	-
Accreted Interest	112,446	40,113	-	152,559	-
Series 2011, Refunding					
Current Interest Bonds	7,045,000	-	(885,000)	6,160,000	900,000
Capital Appreciation Bonds	83,849	-	-	83,849	-
Accreted Interest	165,191	86,688	-	251,879	-
Series 2012, Refunding					
Current Interest Bonds	5,340,000	-	(25,000)	5,315,000	25,000
Capital Appreciation Bonds	7,093	-	-	7,093	-
Accreted Interest	11,209	5,900	-	17,109	-
Total general obligation bonds	<u>15,573,470</u>	<u>132,701</u>	<u>(950,000)</u>	<u>14,756,171</u>	<u>965,000</u>
<u>Other obligations:</u>					
Energy conservation note	1,715,000	-	-	1,715,000	-
Lease-purchase obligations	2,652,412	-	(206,761)	2,445,651	214,790
Total other obligations	<u>4,367,412</u>	<u>-</u>	<u>(206,761)</u>	<u>4,160,651</u>	<u>214,790</u>
Total all governmental activities long-term liabilities	<u>\$ 19,940,882</u>	<u>\$ 132,701</u>	<u>\$ (1,156,761)</u>	<u>\$ 18,916,822</u>	<u>\$ 1,179,790</u>

The lease-purchase obligations will be paid from the permanent improvement fund and general fund. See Note 8 for more detail.

Series 2010 Refunding General Obligation Bonds

On October 6, 2010, the District issued general obligation bonds to advance refund a portion of the Series 2002 bond issue. These bonds are general obligations of the District, for which its full faith and credit is pledged. The source of payment is derived from proceeds of a 5.2 mil bonded debt tax levy.

The issuance proceeds of \$3,362,660 were used to purchase securities which were placed in an irrevocable trust to provide resources for all future debt service payments on the refunded debt. This refunded debt is considered defeased (in substance). At June 30, 2016, \$3,015,000 of this debt was outstanding.

**NORTHWEST LOCAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

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

NOTE 9 - LONG-TERM OBLIGATIONS - (Continued)

The refunding bond issue is comprised of current interest bonds, par value \$2,935,000 and capital appreciation bonds, par value \$78,682. The capital appreciation bonds mature December 1, 2020, (stated interest 20.00%) at a redemption price equal to 100% of the principal, plus accrued interest to the redemption date. The accreted value at maturity for the capital appreciation bonds is \$545,000.

Interest payments on the current interest bonds are due on June 1 and December 1 of each year. The final maturity stated in the issue is December 1, 2022.

Series 2011 Refunding General Obligation Bonds

On October 12, 2011, the District issued general obligation bonds to advance refund a portion of the Series 2002 bond issue. These bonds are general obligations of the District, for which its full faith and credit is pledged. The source of payment is derived from proceeds of a 5.2 mil bonded debt tax levy.

The issuance proceeds of \$9,757,917 were used to purchase securities which were placed in an irrevocable trust to provide resources for all future debt service payments on the refunded debt. This refunded debt is considered defeased (in substance). At June 30, 2016, \$6,920,000 of this debt was outstanding.

This issue is comprised of current interest bonds, par value \$9,085,000 and capital appreciation bonds, par value \$83,849. The capital appreciation bonds mature December 1, 2019, (stated interest 32.25%) at a redemption price equal to 100% of the principal, plus accrued interest to the redemption date. The accreted value at maturity for the capital appreciation bonds is \$955,000.

Interest payments on the current interest bonds are due on June 1 and December 1 of each year. The final maturity stated in the issue is December 1, 2025.

Series 2012 Refunding General Obligation Bonds

On January 12, 2012, the District issued general obligation bonds to advance refund a portion of the Series 2002 bond issue. These bonds are general obligations of the District, for which its full faith and credit is pledged. The source of payment is derived from proceeds of a 5.2 mil bonded debt tax levy.

The issuance proceeds of \$5,709,668 were used to purchase securities which were placed in an irrevocable trust to provide resources for all future debt service payments on the refunded debt. This refunded debt is considered defeased (in-substance). At June 30, 2016, \$5,455,000 of this debt was outstanding.

This issue is comprised of current interest bonds, par value \$5,445,000 and capital appreciation bonds, par value \$7,093. The capital appreciation bonds mature December 1, 2026, (stated interest 30.00%) at a redemption price equal to 100% of the principal, plus accrued interest to the redemption date. The accreted value at maturity for the capital appreciation bonds is \$455,000.

Interest payments on the current interest bonds are due on June 1 and December 1 of each year. The final maturity stated in the issue is December 1, 2029.

Energy Conservation Notes

On October 6, 2010, the District issued notes for the purpose of purchasing and installing energy conservation improvements throughout the District. The notes bear an interest rate of 5.05%, with interest payable each June 1 and December 1. Payments are made from the general fund. The notes mature on December 1, 2025.

**NORTHWEST LOCAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

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

NOTE 9 - LONG-TERM OBLIGATIONS - (Continued)

The District is required to make mandatory sinking fund deposits on each December 1, through 2025, in the amount of \$115,000.

Fiscal Year Ending June 30	<u>Amount</u>
2017	\$ 115,000
2018	115,000
2019	115,000
2020	115,000
2021	115,000
2022	115,000
2023	115,000
2024	115,000
2025	115,000
2026	<u>115,000</u>
Total	<u>\$ 1,150,000</u>

The District receives a reimbursement from the United States Treasury equal to 100% of the lesser of the interest payments on the energy conservation notes or the federal tax credits that would have otherwise been available to the holders of the energy conservation notes. The District records this reimbursement as federal intergovernmental revenue in the general fund.

- B.** Principal and interest requirements to retire the general obligation bonds and notes outstanding at June 30, 2016 are as follows:

Fiscal Year Ending June 30	General Obligation Current Interest Bonds			General Obligation Capital Appreciation Bonds		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 965,000	\$ 431,903	\$ 1,396,903	\$ -	\$ -	\$ -
2018	985,000	412,463	1,397,463	-	-	-
2019	1,000,000	391,426	1,391,426	-	-	-
2020	75,000	379,188	454,188	83,849	871,151	955,000
2021	485,000	371,394	856,394	78,682	466,318	545,000
2022 - 2026	5,655,000	1,324,039	6,979,039	-	-	-
2027 - 2030	<u>5,000,000</u>	<u>374,900</u>	<u>5,374,900</u>	<u>7,093</u>	<u>447,907</u>	<u>455,000</u>
Total	<u>\$ 14,165,000</u>	<u>\$ 3,685,313</u>	<u>\$ 17,850,313</u>	<u>\$ 169,624</u>	<u>\$ 1,785,376</u>	<u>\$ 1,955,000</u>

**NORTHWEST LOCAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

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

NOTE 9 - LONG-TERM OBLIGATIONS - (Continued)

Fiscal Year Ending June 30	Energy Conservation Notes		
	Principal	Interest	Total
2017	\$ -	\$ 86,608	\$ 86,608
2018	-	86,608	86,608
2019	-	86,608	86,608
2020	-	86,608	86,608
2021	-	86,608	86,608
2022 - 2026	1,715,000	389,736	2,104,736
Total	<u>\$ 1,715,000</u>	<u>\$ 822,776</u>	<u>\$ 2,537,776</u>

C. Legal Debt Margin

The Ohio Revised Code provides that voted net general obligation debt of the District shall never exceed 9% of the total assessed valuation of the District. The code further provides that unvoted indebtedness shall not exceed 1/10 of 1% of the property valuation of the District. The code additionally states that unvoted indebtedness related to energy conservation debt shall not exceed 9/10 of 1% of the property valuation of the District. The assessed valuation used in determining the District's legal debt margin has been modified by House Bill 530 which became effective March 30, 2006. In accordance with House Bill 530, the assessed valuation used in the District's legal debt margin calculation excluded tangible personal property used in business, telephone or telegraph property, interexchange telecommunications company property, and personal property owned or leased by a railroad company and used in railroad operations. The effects of these debt limitations at June 30, 2016, are a voted debt margin of \$10,363,525 (including available funds of \$711,576) and an unvoted debt margin of \$266,517.

NOTE 10 - NOTES PAYABLE

On June 22, 2010, the District issued tax anticipation notes in the amount of \$1,137,009 for the purpose of covering general operating costs of the District. Principal and interest payments on the notes are made from the general fund with revenues received from the District's income tax levy.

This issue is comprised of both current interest notes, par value \$1,115,000, and capital appreciation notes, par value \$22,009. The interest rates on the current interest notes range from 2.000% to 3.125%. The capital appreciation notes mature on December 1, 2014 and 2015 (approximate initial offering yield at maturity of 3.50% and 3.60%) at a redemption price equal to 100% of the principal, plus accrued interest to the redemption date. The accreted value at maturity for the capital appreciation notes is \$60,000.

Interest payments on the current interest notes are due on June 1 and December 1 of each year. The notes matured December 1, 2015.

**NORTHWEST LOCAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

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

NOTE 10 - NOTES PAYABLE - (Continued)

The following is a schedule of activity for fiscal year 2016 on the income tax anticipation notes:

	Balance			Balance	Amounts
	<u>06/30/15</u>	<u>Additions</u>	<u>Reductions</u>	<u>06/30/16</u>	<u>Due in</u> <u>One Year</u>
Tax anticipation notes - series 2010:					
Current interest notes	\$ 200,000	\$ -	\$ (200,000)	\$ -	\$ -
Capital appreciation notes	17,721	-	(17,721)	-	-
Accreted interest	<u>29,778</u>	<u>2,501</u>	<u>(32,279)</u>	<u>-</u>	<u>-</u>
Total tax anticipation notes	<u>\$ 247,499</u>	<u>\$ 2,501</u>	<u>\$ (250,000)</u>	<u>\$ -</u>	<u>\$ -</u>

NOTE 11 - OTHER EMPLOYEE BENEFITS

A. Compensated Absences

The criteria for determining vacation and sick leave components are derived from negotiated agreements and State laws. Administrative and 260 day employees earn ten to thirty days of vacation per fiscal year, depending upon length of service. Accumulated, unused vacation time is paid to classified employees and administrators upon termination of employment. Teachers do not earn vacation time. Teachers, administrators, and classified employees earn sick leave at the rate of one and one-fourth days per month. Upon retirement, classified employees are entitled to one-third of unused sick leave for the first 120 days of unused sick leave and one-tenth of unused sick leave in excess of 120 days. Upon retirement, certified employees are entitled to one-third of unused sick leave for the first 120 days of unused sick leave and one-tenth of unused sick leave in excess of 120 days, up to a maximum of 60 days.

B. Insurance Benefits

The District provides life insurance and accidental death and dismemberment insurance to most employees through Stark County Schools Council of Governments Health Benefits Program. Coverage in the amount of \$50,000 is provided for all certified and classified employees.

NOTE 12 - RISK MANAGEMENT

A. Property

The District is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions; injuries to employees and natural disasters. During fiscal year 2016, the District maintained comprehensive insurance coverage with private carriers for real property, building contents and vehicles. Vehicle policies include liability coverage for bodily injury and property damage. Real property and contents are 90% coinsured.

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

**NORTHWEST LOCAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

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

NOTE 12 - RISK MANAGEMENT - (Continued)

B. Employee Health Benefits

The District has contracted with Stark County Schools Council of Governments (a shared risk pool) (see Note 2) to provide employee medical/surgical benefits. Rates are set through an annual calculation process. The District pays a monthly contribution which is placed in a common fund from which claim payments are made for all participating districts. The District's Board of Education pays 89% of the cost of a monthly premium for certified and classified employees. For fiscal year 2016, the District's monthly premium for family coverage and single coverage was \$1,549 and \$638, respectively, for medical and \$200 and \$81, respectively, for dental.

Claims are paid for all participants regardless of claims flow. Upon termination, all District claims would be paid without regard to the District's account balance. The Directors have the right to hold monies for an exiting district subsequent to the settlement of all expenses and claims.

C. Workers' Compensation

The District participates in the Stark County Schools Council of Governments Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (see Note 2). 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. Total savings are then calculated and each participant's individual performances is compared to the overall savings percent of the GRP. A participant will then either receive money from or be required to contribute to the "equity pooling fund". This "equity pooling fund" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to districts that can meet the GRP's selection criteria. The firm of CompManagement, Inc. provides administrative, cost control and actuarial services to the GRP.

NOTE 13 - PENSION PLANS

Net Pension Liability

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

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

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

**NORTHWEST LOCAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

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

NOTE 13 - PENSION PLANS - (Continued)

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

Plan Description - School Employees Retirement System (SERS)

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

Age and service requirements for retirement are as follows:

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

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

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

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

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

**NORTHWEST LOCAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

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

NOTE 13 - PENSION PLANS - (Continued)

The District's contractually required contribution to SERS was \$340,862 for fiscal year 2016.

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

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

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

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

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

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

**NORTHWEST LOCAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

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

NOTE 13 - PENSION PLANS - (Continued)

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

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

The District's contractually required contribution to STRS Ohio was \$1,130,820 for fiscal year 2016.

Net Pension Liability

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

	SERS	STRS Ohio	Total
Proportionate share of the net pension liability	\$ 4,629,533	\$ 20,994,319	\$ 25,623,852
Proportion of the net pension liability	0.08113310%	0.07596433%	

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.

**NORTHWEST LOCAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

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

NOTE 13 - PENSION PLANS - (Continued)

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

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

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

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

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

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>	

**NORTHWEST LOCAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

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

NOTE 13 - PENSION PLANS - (Continued)

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

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

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
District's proportionate share of the net pension liability	\$ 6,419,499	\$ 4,629,533	\$ 3,122,235

Actuarial Assumptions - STRS Ohio

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

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

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

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

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

**NORTHWEST LOCAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

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

NOTE 13 - PENSION PLANS - (Continued)

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

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

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	\$ 29,162,693	\$ 20,994,319	\$ 14,086,741

**NORTHWEST LOCAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

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

NOTE 14 - POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

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

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

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required basic benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. For fiscal year 2016, no portion of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. For fiscal year 2016, this amount was \$23,000. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge.

The District's contributions for health care for the fiscal years ended June 30, 2016, 2015, and 2014 were \$42,595, \$63,029, and \$43,982, respectively. The full amount has been contributed for each fiscal year.

B. State Teachers Retirement System of Ohio

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

**NORTHWEST LOCAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

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

NOTE 14 - POSTEMPLOYMENT BENEFITS - (Continued)

Funding Policy - Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2016, STRS Ohio did not allocate any employer contributions to the Health Care Stabilization Fund. The District's contributions for health care for the fiscal years ended June 30, 2016, 2015 and 2014 were \$0, \$0 and \$79,617, respectively; 100 percent has been contributed for fiscal year 2014.

NOTE 15 - BUDGETARY BASIS OF ACCOUNTING

While the District is reporting financial position, results of operations, and changes in fund balance on the cash basis, the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The statement of receipts, disbursements and change in fund balance - budget and actual - budgetary basis presented for the general fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budgetary basis and the cash basis are that:

- (a) In order to determine compliance with Ohio law, and to reserve that portion of the applicable appropriation, total outstanding encumbrances (budget basis) are recorded as the equivalent of a disbursement, as opposed to assigned or committed fund balance (cash basis);
- (b) Some funds are included in the general fund (cash basis), but have separate legally adopted budgets (budget basis); and,
- (c) Required sinking fund deposits of the principal on the District's energy conservation notes are recorded as disbursements (budget basis), as opposed to restricted cash in segregated accounts (cash basis).

**NORTHWEST LOCAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

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

NOTE 15 - BUDGETARY BASIS OF ACCOUNTING - (Continued)

The adjustments necessary to reconcile the budget basis statement to the cash basis statement are as follows:

Net Change in Fund Balance

	<u>General fund</u>
Budget basis	\$ 819,503
Net adjustment for disbursements	115,000
Funds budgeted elsewhere	(6,486)
Adjustment for encumbrances	773,071
Cash basis	<u>\$ 1,701,088</u>

Certain funds that are legally budgeted in separate special revenue funds are considered part of the general fund on a cash basis. This includes the uniform school supplies fund and the public school support fund.

NOTE 16 - CONTINGENCIES

A. Grants

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

B. Litigation

The District is party to other legal proceedings seeking damages generally incidental to its operations. The District management is of the opinion that disposition of the claim and legal proceedings will not have a material effect, if any, on the financial condition of the District.

C. Foundation Funding

District Foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. Effective for the 2015-2016 school year, traditional Districts must comply with minimum hours of instruction, instead of a minimum number of school days each year. The funding formula the Ohio Department of Education (ODE) is legislatively required to follow will continue to adjust as enrollment information is updated by the District, which can extend past the fiscal year-end. As of the date of this report, ODE has not finalized the impact of enrollment adjustments to the June 30, 2016 Foundation funding for the District; therefore, the financial statement impact is not determinable at this time. ODE and management believe this will result in either a payment owed to the District from ODE or owed by the District to ODE.

**NORTHWEST LOCAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

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

NOTE 17 - SET-ASIDES

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

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

	<u>Capital Improvements</u>
Set-aside balance June 30, 2015	\$ -
Current year set-aside requirement	335,312
Current year offsets	<u>(417,534)</u>
Total	<u>\$ (82,222)</u>
Set-aside balance June 30, 2016	<u><u>\$ -</u></u>

Current year offsets include proceeds from the District's permanent improvement and classroom facilities maintenance tax levies.

During fiscal year 2003, the District issued \$22,999,986 in capital related school improvement bonds. These proceeds may be used to offset the required capital improvements set-aside amount for future years. The District is responsible for tracking the amount of bond proceeds that may be used as an offset in future periods, which was \$22,687,348 at June 30, 2016.

NOTE 18 - OTHER COMMITMENTS

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

	<u>Year-End Encumbrances</u>
<u>Fund</u>	
General	\$ 775,572
Nonmajor governmental	<u>36,246</u>
Total	<u><u>\$ 811,818</u></u>

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**NORTHWEST LOCAL SCHOOL DISTRICT
STARK COUNTY**

**SCHEDULE OF RECEIPTS AND EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2016**

FEDERAL GRANTOR <i>Pass Through Grantor</i>	Grant	Federal	Receipts	Non-Cash	Expenditures	Non-Cash
Program / Cluster Title	Year	CFDA Number	Receipts	Receipts	Expenditures	Expenditures
<u>U.S. DEPARTMENT OF AGRICULTURE</u>						
<i>Passed Through the Ohio Department of Education:</i>						
Child Nutrition Cluster:						
School Breakfast Program	2016	10.553	\$ 23,939	\$ -	\$ 23,939	\$ -
National School Lunch Program	2016	10.555	159,021	37,857	159,021	37,857
Total U.S. Department of Agriculture			<u>182,960</u>	<u>37,857</u>	<u>182,960</u>	<u>37,857</u>
<u>U.S. DEPARTMENT OF EDUCATION</u>						
<i>Passed Through the Ohio Department of Education:</i>						
Special Education Cluster:						
Special Education - Grants to States	2015	84.027	32,000	-	6,134	-
Special Education - Grants to States	2016	84.027	299,641	-	322,046	-
Total Special Education Cluster			<u>331,641</u>	-	<u>328,180</u>	-
Title I Grants to Local Educational Agencies	2015	84.010	55,858	-	5,114	-
Title I Grants to Local Educational Agencies	2016	84.010	308,756	-	340,270	-
Total Title I Grants to Local Educational Agencies			<u>364,614</u>	-	<u>345,384</u>	-
ARRA Race to the Top	2015	84.395	12,153	-	8,691	-
Improving Teacher Quality State Grants	2015	84.367	8,274	-	2,909	-
Improving Teacher Quality State Grants	2016	84.367	57,495	-	63,189	-
Total Improving Teacher Quality			<u>65,769</u>	-	<u>66,098</u>	-
Total U.S. Department of Education			<u>774,177</u>	<u>-</u>	<u>748,353</u>	<u>-</u>
Total Federal Financial Assistance			<u>\$957,137</u>	<u>\$37,857</u>	<u>\$931,313</u>	<u>\$37,857</u>

The accompanying notes to this schedule are an integral part of this schedule.

**NORTHWEST LOCAL SCHOOL DISTRICT
STARK COUNTY**

**NOTES TO THE SCHEDULE OF RECEIPTS AND EXPENDITURES OF FEDERAL AWARDS
2 CFR §200.510(b)(6)
FOR THE YEAR ENDED JUNE 30, 2016**

NOTE A – BASIS OF PRESENTATION

The accompanying Schedule of Receipts and Expenditures Federal Awards (the Schedule) includes the federal award activity of Northwest Local School District (the District's) under programs of the federal government for the year ended June 30, 2016. The information on this Schedule is prepared in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial position or changes in net position of the District.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

NOTE C - CHILD NUTRITION CLUSTER

The 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 D – FOOD DONATION PROGRAM

The District reports commodities consumed on the Schedule at the entitlement value. The District allocated donated food commodities to the respective program that benefitted 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*

Northwest Local School District
Stark County
2309 Locust Street South
Canal Fulton, Ohio 44614

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 cash basis financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the Northwest Local School District, Stark County, (the District) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated December 16, 2016, wherein we noted the District uses a special purpose framework other than generally accepted accounting principles.

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the 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 2016-001 and 2016-002.

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 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

December 16, 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 THE UNIFORM GUIDANCE

Northwest Local School District
Stark County
2309 Locust Street South
Canal Fulton, Ohio 44614

To the Board of Education:

Report on Compliance for Each Major Federal Program

We have audited the Northwest Local School District's (the District) compliance with the applicable requirements described in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could directly and materially affect each of the Northwest Local School District's major federal programs for the year ended June 30, 2016. 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 federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to opine on the 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). These standards and the Uniform Guidance require us to plan and perform the audit to reasonably assure whether noncompliance with the applicable compliance requirements referred to above that could directly and materially affect a major federal program occurred. An audit includes examining, on a test basis, evidence about the 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 each of 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 and Special Education Cluster

As described in finding 2016-003 in the accompanying schedule of findings, the District did not comply with requirement regarding Suspension and Debarment applicable to its CFDA #84.010 Title I and CFDA #84.027 Special Education Cluster major federal programs. Compliance with this requirement is necessary, in our opinion, for the District to comply with requirements applicable to these programs.

Qualified Opinion on Title I and Special Education Cluster

In our opinion, except for the noncompliance described in the *Basis for Qualified Opinion on Title I and Special Education Cluster* paragraph, the Northwest Local School District complied, in all material respects, with the requirements referred to above that could directly and materially affect its Title I and Special Education Cluster for the year ended June 30, 2016.

Other Matters

The District's response to our noncompliance 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.

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 the Uniform Guidance, but not to the extent needed to opine on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the District's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and 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, we identified a certain deficiency in internal control over compliance that we consider to be a material weakness, described in the accompanying schedule of findings as item 2016-003.

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.

Northwest Local School District
Stark County
Independent Auditor's Report on Compliance with Requirements
Applicable to Each Major Federal Program and on Internal
Control Over Compliance Required by the *Uniform Guidance*
Page 2

This report only describes the scope of our tests of internal control over compliance and the results of this testing based on the Uniform Guidance 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 "D" and "Y".

Dave Yost
Auditor of State
Columbus, Ohio

December 16, 2016

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**NORTHWEST LOCAL SCHOOL DISTRICT
STARK COUNTY**

**SCHEDULE OF FINDINGS
2 CFR § 200.515
JUNE 30, 2016**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unmodified
(d)(1)(ii)	Were there any material weaknesses in internal control reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material noncompliance at the financial statement level (GAGAS)?	Yes
(d)(1)(iv)	Were there any material internal control weaknesses reported for major federal programs?	Yes
(d)(1)(iv)	Were there any significant deficiencies in internal control reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Qualified
(d)(1)(vi)	Are there any reportable findings under 2 CFR §200.516(a)?	Yes
(d)(1)(vii)	Major Programs (list):	Title I Grants to Local Educational Agencies – CFDA # 84.010 Special Education Grants to States – CFDA # 84.027
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: > \$ 750,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee under 2 CFR §200.520?	No

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

FINDING NUMBER 2016-001

Noncompliance - Ohio Rev. Code § 117.38

Ohio Rev. Code § 117.38 provides that each public office shall file a financial report for each fiscal year. The Auditor of State may prescribe forms by rule or may issue guidelines, or both, for such reports. If the Auditor of State has not prescribed a rule regarding the form for the report, the public office shall submit its report to 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 prepare its annual financial report in accordance with generally accepted accounting principles.

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.

The District did not report the financial activity of the District in accordance with generally accepted accounting principles for the fiscal year ending June 30, 2016. The accompanying financial statements and notes omit assets and deferred outflows of resources, liabilities and deferred inflows of resources, net position/fund balance, and disclosures that, while material, cannot be determined at this time.

The Board of Education should review the standards and ensure preparation of its financial statements in accordance with AICPA's *Audit and Accounting Guide Audits of State and Local Governments*. The Board of Education should ensure the financial statements are prepared in accordance with the Ohio Administrative Code and the Ohio Revised Code. Implementation of these procedures may help ensure accurate and timely financial statements are available to the District's community.

Official's Response: The Northwest Local Board of Education has reviewed the standards for financial reporting and has deemed the generally accepted accounting principles to be too costly. The Board of Education, at the request of the Treasurer, has agreed to report the annual financial results on a cash basis of accounting. The District's financial statements will be prepared in a format that substantially conforms to the reporting model prescribed by Governmental Accounting Standards Board Statement No. 34 or "GAAP look-a-like" financial statements. We understand that there may be a fine for this noncompliance but believe that the cost savings to the District is definitely justified.

FINDING NUMBER 2016-002

Noncompliance - Ohio Rev. Code § 5705.10(I)

Ohio Rev. Code § 5705.10(I) indicates that money paid into a fund must be used only for the purposes for which such fund has been established. As a result, a negative fund cash balance indicates that money from one fund was used to cover the expenses of another fund. However, Ohio Rev. Code Section 3315.20 provides an allowable exception for school districts. Effective March 30, 2007, a school district may have a deficit in any special fund of the school district, but only if all of the following conditions are satisfied:

- The school district has a request for payment pending with the state sufficient to cover the amount of the deficit [R.C. § 3315.20(A)]
- There is a reasonable likelihood that the payment will be made [R.C. § 3315.20(A)]
- The unspent and unencumbered balance in the school district's general fund is greater than the aggregate of deficit amounts in all of the school district's special funds. [R.C. § 3315.20(B)]

**FINDING NUMBER 2016-002
 (Continued)**

Negative fund cash balances were noted in which the above conditions were not satisfied in October 2015 in the Building fund in the amount of (\$170,754), the Student Activity fund in the amount of (\$71,453), the IDEA Part B Special Education fund in the amount of (\$130,105), the Title I fund in the amount of (\$42,450), and the Improving Teacher Quality fund in the amount of (\$7,326) and in April 2016 in the Building fund in the amount of (\$170,754), the Student Activity fund in the amount of (\$33,755), and the IDEA Part B Special Education fund in the amount of (\$60,694). At June 30, 2016 negative fund balances were noted in the Building fund, the Other Grants fund, and the Student Activity fund in the amount of (\$170,754), (\$3,221), and (\$68,485), respectively, (\$42,646) in the IDEA Part B Special Education fund and (\$683) in the Miscellaneous Federal Grants fund.

The District should monitor fund balances throughout the year to help avoid negative fund balances. If a deficit spending situation arises, the District should ensure they meet the three above conditions or make the appropriate transfers/advances from the General Fund to help eliminate the negative fund cash balances.

Official's Response: The Statement of Cash Position Report reflects negative fund balances. The District will monitor this report and make necessary advances. For the Building fund account the District anticipates eliminating this negative balance through a transfer from the Permanent Improvement Fund once funds become available. The District made this commitment previously but a reduction in property valuations has delayed this action.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

Finding Number	2016-003		
CFDA Title and Number	Title I Grants to Local Educational Agencies – CFDA # 84.010 Special Education Grants to States – CFDA # 84.027		
Federal Award Identification Number / Year	2015 and 2016		
Federal Agency	U.S. Department of Education		
Pass-Through Entity	Ohio Department of Education		
Repeat Finding from Prior Audit?	Yes	Finding Number? (if repeat)	2015-003

Noncompliance and Material Weakness - 2 CFR § 3485.12 ED Adoption of 2 CFR §180.300 - Suspension and Debarment

2 CFR §3485.12 gives regulatory effect to the Department of Education for **2 CFR §180.300** which states when a non-Federal entity enters into a covered transaction with an entity at a lower tier, the non-Federal entity must verify that the entity is not suspended or debarred or otherwise excluded. Furthermore, “covered transactions” include those procurement contracts for goods and services awarded under a grant or cooperative.

2 CFR §180.300 further states grantees and sub-grantees must not make any award or permit any award (subgrant or contract) at any tier to any party which is debarred or suspended or is otherwise excluded from or ineligible for participation in Federal assistance programs under Executive Order 12549, "Debarment and Suspension" by

- (a) Checking the SAM exclusions; or
- (b) Collecting a certification from that person; or
- (c) Adding a clause or condition to the covered transaction with that person.

The District asserted to the auditors that it had contracts within the Title I Cluster and Special Education Cluster programs which did not include the collection of a certification or the addition of a clause or condition to the contract indicating the entity was not excluded or disqualified. In addition, there was no documentation maintained showing the EPLS had been checked prior to entering into the contract. The auditors performed a search of the Excluded Parties List System for vendors paid from Title and Special Education Cluster grant monies and determined they were not suspended or debarred or otherwise excluded.

The District should implement procedures to ensure one of the three aforementioned methods is used to verify the entity is not excluded or disqualified and to avoid potential future opinion modification. In addition, if the District reviews the EPLS online at <https://www.sam.gov/portal/public/SAM>, a search print out should be maintained to document the search had been performed for all vendors to whom federal dollars are disbursed.

Official's Response: The District will provide the online link to all of the Treasurer's staff, the Central Office staff and the Director of Instruction for their use. We will review the procedure requiring that the material obtained will be printed and kept for audit purposes.

**NORTHWEST LOCAL SCHOOL DISTRICT
STARK COUNTY**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2016**

Finding Number	Finding Summary	Status	Additional Information
2015-001	Ohio Rev. Code § 117.38 – The District did not report the financial activity of the District in accordance with generally accepted accounting principles.	No	Not Corrected due to cost benefit analysis performed by the District. Refer to Finding Number 2016-001
2015-002	Ohio Rev. Code § 5705.10(1) – Negative fund balances were noted in several funds	No	Not Corrected due to lack of funds for repayment. Refer to Finding Number 2016-002
2015-003	2 C.F.R. § 180.300 – The District did not perform a search of the ELPS or otherwise verify that vendors were not suspended or debarred.	No	Not Corrected due to lack of control procedures. Refer to Finding Number 2016-003

**NORTHWEST LOCAL SCHOOL DISTRICT
STARK COUNTY**

**CORRECTIVE ACTION PLAN
2 CFR §200.511(C)
JUNE 30, 2016**

Finding Number	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person
2016-001	The Northwest Local Board of Education has reviewed the standards for financial reporting and has deemed the generally accepted accounting principles to be too costly. The Board of Education, at the request of the Treasurer, has agreed to report the annual financial results on a cash basis of accounting. The District's financial statements will be prepared in a format that substantially conforms to the reporting model prescribed by Governmental Accounting Standards Board Statement No. 34 or "GAAP look-a-like" financial statements. We understand that there may be a fine for this noncompliance but believes the cost savings to the District is definitely justified.	June 2017	Treasurer, Board of Education
2016-002	The Statement of Cash Position Report reflects negative fund balances. The District will monitor this report and make necessary advances. For the Building fund account the District anticipates eliminating this negative balance through a transfer from the Permanent Improvement Fund once funds become available. The District made this commitment previously but a reduction in property valuations has delayed this action.	June 2017	Treasurer
2016-003	The District will provide the online link to all the Treasurer's staff, the Central Office staff and the Director of Instruction for their use. We will review the procedure requiring that the material obtained will be printed and kept for audit purposes.	June 2017	Treasurer's Office



Dave Yost • Auditor of State

NORTHWEST LOCAL SCHOOL DISTRICT

STARK 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
DECEMBER 27, 2016**