

Northwestern Local School District Clark County, Ohio

Basic Financial Statements

June 30, 2015

with Independent Auditors' Report



Dave Yost • Auditor of State

Board of Education
Northwestern Local School District
5610 Tory Rd
Springfield, OH 45502

We have reviewed the *Independent Auditor's Report* of the Northwestern Local School District, Clark County, prepared by Clark, Schaefer, Hackett & Co., for the audit period July 1, 2014 through June 30, 2015. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

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

Dave Yost
Auditor of State

March 7, 2016

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INDEPENDENT AUDITORS' REPORT

Board of Education
Northwestern Local School District
5610 Troy Road
Springfield, Ohio 45502

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the District, as of June 30, 2015, and the respective changes in financial position thereof and the budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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Emphasis of Matter

As discussed in Note 3 to the financial statements, during the year ended June 30, 2015, the District adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and related GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date* – an amendment of GASB Statement No. 68. As a result of the implementation of GASB Statements No. 68 and 71, the District restated net position at July 1, 2014 for the change in accounting principle. Our auditors' opinion was not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis (pages 3 through 15) and schedules of net pension liabilities and pension contributions (pages 59 through 64) be presented to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, to the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The Schedule of Expenditures of Federal Awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 31, 2015 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Clark, Schaefer, Hackett & Co.

Springfield, Ohio
December 31, 2015

**NORTHWESTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

The management's discussion and analysis of the Northwestern 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, 2015. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the transmittal letter, notes to the basic financial statements and basic financial statements to enhance their understanding of the District's financial performance.

Financial Highlights

Key financial highlights for 2015 are as follows:

- In total, net position of governmental activities decreased \$213,592 which represents a 1.89% decrease from 2014's restated net position.
- General revenues accounted for \$18,148,218 in revenue or 82.34% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$3,893,345 or 17.66% of total revenues of \$22,041,563.
- The District had \$22,255,155 in expenses related to governmental activities; only \$3,893,345 of these expenses was offset by program specific charges for services and grants or contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$18,148,218 were not adequate to provide for these programs.
- The District's major funds are the general fund, the bond retirement fund and the classroom facilities fund. The general fund had \$17,232,724 in revenues and other financing sources and \$16,428,617 in expenditures and other financing uses. During fiscal year 2015, the general fund's fund balance increased \$804,107 from a balance of \$5,134,311 to a balance of \$5,938,418.
- The bond retirement fund had \$3,239,343 in revenues and other financing sources and \$1,919,439 in expenditures. During fiscal year 2015, the bond retirement fund's fund balance increased \$1,319,904 from a balance of \$2,222,788 to a balance of \$3,542,692.
- The classroom facilities fund had \$4,084 in revenues and \$952,273 in expenditures. During fiscal year 2015, the classroom facilities fund's fund balance decreased \$948,189 from a balance of \$1,974,749 to a balance of \$1,026,560.

Using these Basic Financial Statements

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

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

**NORTHWESTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

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 2015?" The statement of net position and the statement of activities answer this question. These statements include all assets, deferred outflows, liabilities, deferred inflows, revenues and expenses using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

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

The District's statement of net position and statement of activities can be found on pages 16-17 of this report.

Reporting the District's Most Significant Fund

Fund Financial Statements

The analysis of the District's major governmental funds begins on page 12. Fund financial reports provide detailed information about the District's major funds. The District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the District's most significant funds. The District's major funds are the general fund, the bond retirement fund and the classroom facilities fund.

Governmental Funds

Most of the District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund financial statements provide a detailed short-term 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 financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental activities (reported in the statement of net position and the statement of activities) and governmental funds is reconciled in the basic financial statements. The basic governmental fund financial statements can be found on pages 18-22 of this report.

Reporting the District's Fiduciary Responsibilities

The District acts in a trustee capacity as an agent for individuals or other entities. These activities are reported in agency funds. The District's fiduciary activities are reported in a separate statement of assets and liabilities on page 23. These activities are excluded from the District's other financial statements because the assets cannot be utilized by the District to finance its operations.

**NORTHWESTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

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 24-58 of this report.

Required Supplementary Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the District's net pension liability. The required supplementary information can be found on pages 59 through 65 of this report.

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**NORTHWESTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

The District as a Whole

The statement of net position provides the perspective of the District as a whole.

The table below provides a summary of the District's net position at June 30, 2015 and June 30, 2014. The net position at June 30, 2014 has been restated as described in Note 3.A.

	Net Position	
	Governmental Activities 2015	Restated Governmental Activities 2014
<u>Assets</u>		
Current and other assets	\$ 22,800,910	\$ 22,220,829
Capital assets, net	<u>48,786,251</u>	<u>50,789,723</u>
Total assets	<u>71,587,161</u>	<u>73,010,552</u>
<u>Deferred outflows</u>		
Pension	<u>1,385,181</u>	<u>1,138,788</u>
Total deferred outflows	<u>1,385,181</u>	<u>1,138,788</u>
<u>Liabilities</u>		
Current liabilities	2,779,584	2,673,646
Long-term liabilities:		
Due within one year	510,088	402,093
Due in more than one year		
Net pension liability	19,306,127	22,942,564
Other amounts	<u>29,002,322</u>	<u>29,380,047</u>
Total liabilities	<u>51,598,121</u>	<u>55,398,350</u>
<u>Deferred inflows</u>		
Property taxes levied for the next fiscal year	6,786,403	7,444,442
Pension	<u>3,494,862</u>	<u>-</u>
Total deferred inflows	<u>10,281,265</u>	<u>7,444,442</u>
<u>Net Position</u>		
Net investment in capital assets	20,084,411	20,784,201
Restricted	6,524,741	7,275,784
Unrestricted (deficit)	<u>(15,516,196)</u>	<u>(16,753,437)</u>
Total net position (deficit)	<u>\$ 11,092,956</u>	<u>\$ 11,306,548</u>

**NORTHWESTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

During 2015, the District adopted GASB Statement 68, "Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement 27," which significantly revises accounting for pension costs and liabilities. For reasons discussed below, many end users of this financial statement will gain a clearer understanding of the District's actual financial condition by adding deferred inflows related to pension and the net pension liability to the reported net position and subtracting deferred outflows related to pension.

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

Under the new standards required by GASB 68, the net pension liability equals the District's proportionate share of each plan's collective:

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

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

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

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

**NORTHWESTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

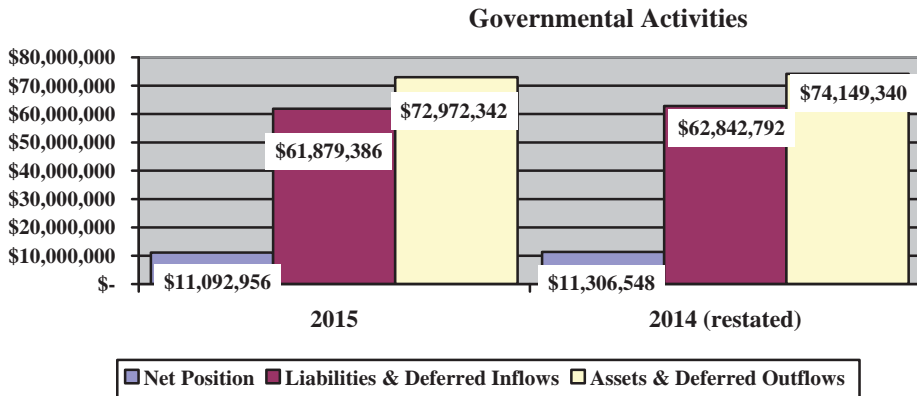
As a result of implementing GASB 68, the District is reporting a net pension liability and deferred inflows/outflows of resources related to pension on the accrual basis of accounting. This implementation also had the effect of restating net position at June 30, 2014, from \$33,110,324 to \$11,306,548.

Over time, net position can serve as a useful indicator of government's financial position. At June 30, 2015, the District's assets and deferred outflows exceeded liabilities and deferred inflows by \$11,092,956. Of this total, \$6,524,741 is restricted in use.

At year end, capital assets represented 68.15% of total assets. Capital assets include land, land improvements, buildings and improvements, furniture and equipment and vehicles. Net investments in capital assets at June 30, 2015, were \$20,084,411. These capital assets are used to provide services to the students and are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the District's net position, \$6,524,741, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net position is (\$15,516,196).

The graph below shows the District's assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position at June 30, 2015 and June 30, 2014. The amounts at June 30, 2014 have been restated as described in Note 3.A.



**NORTHWESTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

The table below shows the change in net position for fiscal year 2015 and 2014. The net position at June 30, 2014 has been restated as described in Note 3.A.

Change in Net Position

	<u>Governmental Activities</u>	
	<u>2015</u>	<u>Restated 2014</u>
<u>Revenues</u>		
Program revenues:		
Charges for services and sales	\$ 2,081,875	\$ 2,046,271
Operating grants and contributions	1,811,470	971,401
General revenues:		
Property taxes	7,204,293	6,956,428
School district income taxes	2,107,334	2,121,184
Grants and entitlements	8,604,577	8,900,204
Investment earnings	212,738	118,211
Miscellaneous	19,276	192,412
Total revenues	<u>22,041,563</u>	<u>21,306,111</u>
<u>Expenses</u>		
Program expenses:		
Instruction:		
Regular	10,185,314	9,597,337
Special	2,375,393	2,080,008
Vocational	2,268	-
Other	94,812	4,878
Support services:		
Pupil	814,147	1,043,059
Instructional staff	1,422,113	637,024
Board of education	96,009	84,781
Administration	1,062,318	1,014,367
Fiscal	525,063	527,225
Operations and maintenance	1,471,482	1,380,818
Pupil transportation	1,170,596	1,113,463
Central	-	7,949
Operation of non-instructional services:		
Other non-instructional services	31,492	106,985
Food service operations	749,247	581,177
Extracurricular activities	554,489	515,351
Interest and fiscal charges	1,700,412	1,746,401
Total expenses	<u>22,255,155</u>	<u>20,440,823</u>
Special Item	<u>-</u>	<u>(4,378,530)</u>
Changes in net position	(213,592)	(3,513,242)
Net position at beginning of year (restated)	<u>11,306,548</u>	<u>N/A</u>
Net position at end of year	<u>\$ 11,092,956</u>	<u>\$ 11,306,548</u>

**NORTHWESTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

Governmental Activities

The information necessary to restate the 2014 beginning balances and the 2014 pension expense amounts for the effects of the initial implementation of GASB 68 is not available. Therefore, 2014 functional expenses still include pension expense of \$1,138,788 computed under GASB 27. GASB 27 required recognizing pension expense equal to the contractually required contributions to the plan. Under GASB 68, pension expense represents additional amounts earned, adjusted by deferred inflows/outflows. The contractually required contribution is no longer a component of pension expense. Under GASB 68, the 2015 statements report pension expense of \$815,128.

Consequently, in order to compare 2015 total program expenses to 2014, the following adjustments are needed:

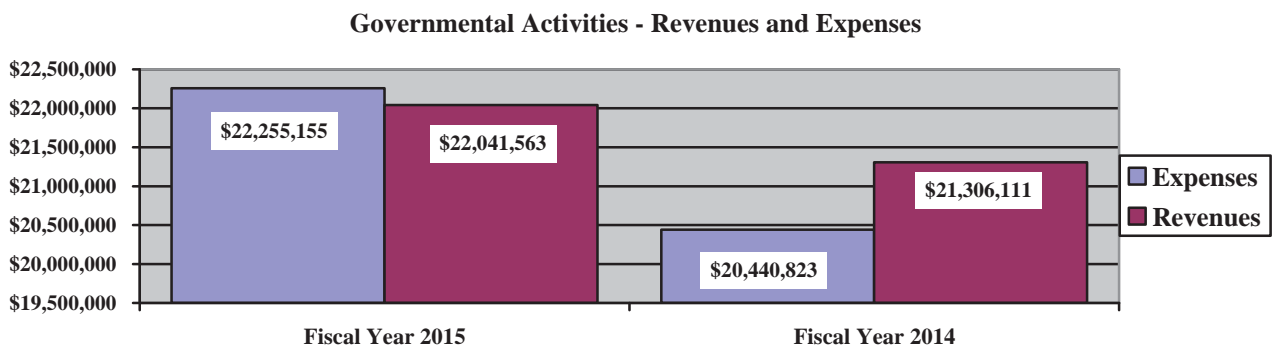
Total 2015 program expenses under GASB 68	\$ 22,255,155
Pension expense under GASB 68	(815,128)
2015 contractually required contributions	<u>1,203,096</u>
Adjusted 2015 program expenses	22,643,123
Total 2014 program expenses under GASB 27	<u>20,440,823</u>
Increase in program expenses not related to pension	<u>\$ 2,202,300</u>

Net position of the District's governmental activities decreased \$213,592. Total governmental expenses of \$22,255,155 were offset by program revenues of \$3,893,345 and general revenues of \$18,148,218. Program revenues supported 17.49% of the total governmental expenses.

The primary sources of revenue for governmental activities are derived from property taxes, income taxes and grants and entitlements not restricted to specific programs. These revenue sources represent 81.28% of total governmental revenue. Real estate property is reappraised every six years. Total revenues increased \$735,452 during the current fiscal year. The majority of the increase was in operating grants and contributions primarily due to an increase in Title I grants received during the current fiscal year.

Total expenses increased primarily due to an increase related to instructional and support service expenses. The increase is due to a slight increase in benefits and wages.

The graph below presents the District's governmental activities revenue and expenses for fiscal year 2015 and 2014.



**NORTHWESTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

The statement of activities shows the cost of program services and the charges for services 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 revenue and unrestricted State grants and entitlements.

Governmental Activities

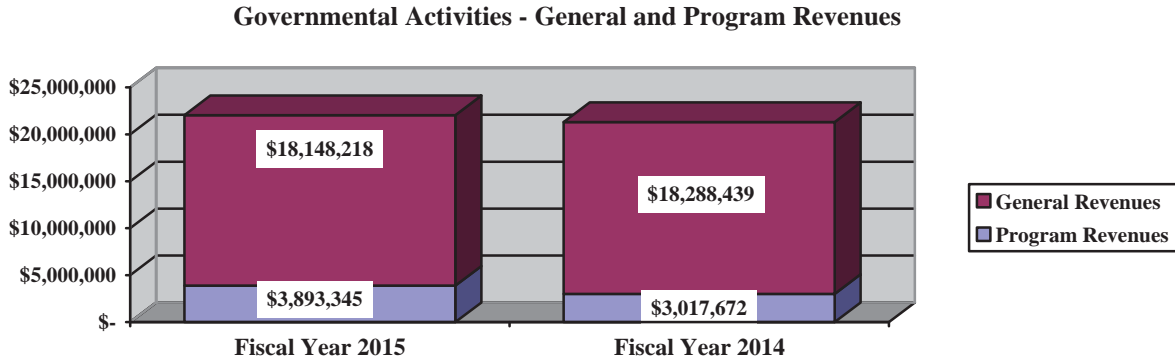
	Total Cost of Services <u>2015</u>	Net Cost of Services <u>2015</u>	Total Cost of Services <u>2014</u>	Net Cost of Services <u>2014</u>
Program expenses:				
Instruction:				
Regular	\$ 10,185,314	\$ 8,648,511	\$ 9,597,337	\$ 8,117,656
Special	2,375,393	1,058,974	2,080,008	1,667,804
Vocational	2,268	(5,913)	-	-
Other	94,812	94,812	4,878	4,878
Support services:				
Pupil	814,147	719,447	1,043,059	919,040
Instructional staff	1,422,113	1,281,730	637,024	561,247
Board of Education	96,009	96,009	84,781	84,781
Administration	1,062,318	1,062,218	1,014,367	1,014,367
Fiscal	525,063	525,063	527,225	527,225
Operations and maintenance	1,471,482	1,471,482	1,380,818	1,379,352
Pupil transportation	1,170,593	1,124,576	1,113,463	1,113,463
Central	-	-	7,949	7,949
Operation of non-instructional services:				
Other non-instructional services	31,492	(13,167)	106,985	73,375
Food service operations	749,247	195,088	581,177	(5,857)
Extracurricular activities	554,489	402,568	515,351	211,470
Interest and fiscal charges	<u>1,700,412</u>	<u>1,700,412</u>	<u>1,746,401</u>	<u>1,746,401</u>
 Total expenses	 <u>\$ 22,255,152</u>	 <u>\$ 18,361,810</u>	 <u>\$ 20,440,823</u>	 <u>\$ 17,423,151</u>

The dependence upon tax and other general revenues for governmental activities is apparent, 77.39% of instruction activities in fiscal year 2015 are supported through taxes and other general revenues as for all governmental activities, general revenue support is 82.51%. The District's taxpayers, and grants and entitlements from the State of Ohio, as a whole, are by far the primary support for the District's students.

**NORTHWESTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

The graph below presents the District's governmental activities revenue for fiscal year 2015 and 2014.



The District's Funds

The District's governmental funds reported a combined fund balance of \$12,290,659 which is higher than last year's total of \$11,385,770. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2015 and 2014.

	Fund Balance <u>June 30, 2015</u>	Fund Balance <u>June 30, 2014</u>	Increase <u>(Decrease)</u>
General	\$ 5,938,418	\$ 5,134,311	\$ 804,107
Bond retirement	3,542,692	2,222,788	1,319,904
Classroom facilities	1,026,560	1,974,749	(948,189)
Other governmental	<u>1,782,989</u>	<u>2,053,922</u>	<u>(270,933)</u>
Total	<u>\$ 12,290,659</u>	<u>\$ 11,385,770</u>	<u>\$ 904,889</u>

General Fund

The District's general fund balance increased \$804,107. Tax revenues increased slightly due to an increase in the amount available for advance from the County Auditor. Earnings on investments increased due to an increase in the amount of investments that matured during the current fiscal year. Intergovernmental revenues increased due to an increase in the amount of school foundation revenues received. Expenditures related to instruction and support services expenses increased during the year due to a slight increase in personnel costs. Facilities acquisition and construction expenses decreased due to decrease in current year projects funded by the District's general fund.

**NORTHWESTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

The table that follows assists in illustrating the financial activities and fund balance of the general fund.

	<u>2015</u> <u>Amount</u>	<u>2014</u> <u>Amount</u>	<u>Percentage</u> <u>Change</u>
<u>Revenues</u>			
Taxes	\$ 7,613,967	\$ 7,593,726	0.27 %
Earnings on investments	39,959	29,376	36.03 %
Intergovernmental	7,916,246	7,557,820	4.74 %
Other revenues	<u>1,657,523</u>	<u>1,649,497</u>	0.49 %
 Total	 <u>\$ 17,227,695</u>	 <u>\$ 16,830,419</u>	 2.36 %
<u>Expenditures</u>			
Instruction	\$ 9,773,544	\$ 9,484,592	3.05 %
Support services	5,486,715	5,203,405	5.44 %
Extracurricular activities	354,932	315,651	12.44 %
Facilities acquisition and construction	<u>32,942</u>	<u>333,834</u>	(90.13) %
 Total	 <u>\$ 15,648,133</u>	 <u>\$ 15,337,482</u>	 2.03 %

Bond Retirement Fund

The bond retirement fund had \$3,239,343 in revenues and other financing sources and \$1,919,439 in expenditures. During fiscal year 2015, the bond retirement fund's fund balance increased \$1,319,904 from a balance of \$2,222,788 to a balance of \$3,542,692.

Classroom Facilities Fund

The classroom facilities fund had \$4,084 in revenues and \$952,273 in expenditures. During fiscal year 2015, the classroom facilities fund's fund balance decreased \$948,189 from a balance of \$1,974,749 to a balance of \$1,026,560.

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.

During the course of fiscal year 2015, the District amended its general fund budget several times. For the general fund, final budgeted revenues and other financing sources were \$17,342,060, which was the \$213,798 lower than the original budgeted revenues and other financing sources of \$17,555,858. Actual revenues and other financing sources for fiscal 2015 were \$17,404,166 which was \$62,106 higher than the final budgeted revenues.

General fund original appropriations of \$15,296,839 were increased to \$16,751,049 in the final budget. The actual budget basis expenditures for fiscal year 2015 totaled \$16,483,482, which was \$267,567 less than the final budgeted appropriations.

**NORTHWESTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2015, the District had \$48,786,251 invested in land, land improvements, buildings and improvements, furniture and equipment and vehicles. This entire amount is reported in governmental activities. The following table shows June 30, 2015 balances compared to June 30, 2014.

	Capital Assets at June 30	
	(Net of Depreciation)	
	<u>Governmental Activities</u>	
	<u>2015</u>	<u>2014</u>
Land	\$ 479,604	\$ 949,676
Land improvements	6,679,563	5,649,545
Building and improvements	39,183,116	40,720,601
Furniture and equipment	1,896,039	3,041,406
Vehicles	<u>547,929</u>	<u>428,495</u>
Total	<u>\$ 48,786,251</u>	<u>\$ 50,789,723</u>

The overall decrease in capital assets is due to depreciation expense of \$3,740,358 and disposals of \$483,814 (net of accumulated depreciation) exceeding capital outlays of \$2,220,700 in the current period.

See Note 9 to the basic financial statements for detail.

Debt Administration

At June 30, 2015, the District had \$28,375,000 in general obligation bonds outstanding. Of this total, \$250,000 is due within one year and \$28,125,000 is due within greater than one year. The following table summarizes the liabilities outstanding.

	Governmental	Governmental
	Activities	Activities
	<u>2015</u>	<u>2014</u>
General obligation bonds	<u>\$ 28,375,000</u>	<u>\$ 28,625,000</u>
Total	<u>\$ 28,375,000</u>	<u>\$ 28,625,000</u>

See Note 10 to the basic financial statements for detail on the District's debt administration.

**NORTHWESTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

Current Financial Related Activities

The District is currently in good financial condition. Although stable, there are unknown factors that could have a negative impact. The Substitute Levy that was first approved in 2010 was not renewed in November 2015, however, the District will place the renewal on the March 2016 ballot. This levy represents nearly 11% of the General Fund operating revenue. The Permanent Improvement Levy was renewed in November 2015.

The state budget for fiscal years has been set, however it is not clear how the funding will affect the district.

The negotiated agreements with both unions expire on June 30, 2016. The results of the negotiation will have an impact on future expenditures.

The November, 2009 vote included the approval of a bond issue to build two new school buildings to replace the three buildings that were in use at that time. Grades 7 - 12 moved into the new Northwestern Junior/Senior High School in August, 2013. Grade PK – 6 moved into the new Northwestern Elementary School in November, 2013. The old buildings were demolished in 2014. Work continues to finish the projects.

In conclusion, the Northwestern Local School District has committed itself to financial excellence for many years. Before the November, 2009 levy, the last increase in local tax millage was approved in 1992. The District's system of financial planning, budgeting, and internal financial controls are well regarded. Current economic conditions present possible major challenges. Budget cuts were made several years ago and more cuts may be made in the future if the revenue does not increase at the same pace as expenditures. The District plans to continue its sound fiscal management to meet the challenges of the future.

Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information contact David Bollheimer, Office of the Treasurer, Northwestern Local Schools, 5610 Troy Road, Springfield, OH 45502.

**NORTHWESTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY, OHIO**

STATEMENT OF NET POSITION
JUNE 30, 2015

	Governmental Activities
Assets:	
Equity in pooled cash and investments	\$ 11,074,098
Receivables:	
Property taxes	7,629,295
Income taxes.	836,685
Accounts.	28,771
Accrued interest	22,692
Intergovernmental	400,662
Materials and supplies inventory.	54,795
Inventory held for resale.	7,319
Restricted investments with trustee	2,746,593
Capital assets:	
Nondepreciable capital assets	479,604
Depreciable capital assets, net.	48,306,647
Capital assets, net	48,786,251
Total assets.	71,587,161
 Deferred outflows of resources:	
Pension - STRS	1,099,810
Pension - SERS	285,371
Total deferred outflows of resources	1,385,181
 Liabilities:	
Accounts payable.	50,188
Contracts payable.	429,105
Retainage payable	657,515
Accrued wages and benefits payable	1,321,777
Intergovernmental payable	312,941
Accrued interest payable	8,058
Long-term liabilities:	
Due within one year.	510,088
Due in more than one year:	
Net pension liability	19,306,127
Other amounts due in more than one year	29,002,322
Total liabilities	51,598,121
 Deferred inflows of resources:	
Property taxes levied for the next fiscal year.	6,786,403
Pension - STRS.	2,945,457
Pension - SERS.	549,405
Total deferred inflows of resources	10,281,265
 Net position:	
Net investment in capital assets	20,084,411
Restricted for:	
Capital projects	2,158,075
Classroom facilities maintenance	550,756
Debt service.	3,600,412
Federally funded programs	37,392
Student activities	69,661
Other purposes	108,445
Unrestricted (deficit)	(15,516,196)
Total net position.	\$ 11,092,956

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**NORTHWESTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY, OHIO**

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

	Expenses	Program Revenues		Net (Expense)
		Charges for Services and Sales	Operating Grants and Contributions	Revenue and Changes in Net Position
				Governmental Activities
Governmental activities:				
Instruction:				
Regular	\$ 10,185,314	\$ 1,478,710	\$ 58,093	\$ (8,648,511)
Special	2,375,393	159,027	1,157,392	(1,058,974)
Vocational	2,268	-	8,181	5,913
Other	94,812	-	-	(94,812)
Support services:				
Pupil	814,147	-	94,700	(719,447)
Instructional staff	1,422,113	-	140,383	(1,281,730)
Board of education	96,009	-	-	(96,009)
Administration	1,062,318	100	-	(1,062,218)
Fiscal	525,063	-	-	(525,063)
Operations and maintenance	1,471,482	-	-	(1,471,482)
Pupil transportation	1,170,596	-	46,020	(1,124,576)
Operation of non-instructional services:				
Other non-instructional services	31,492	44,034	625	13,167
Food service operations	749,247	248,083	306,076	(195,088)
Extracurricular activities	554,489	151,921	-	(402,568)
Interest and fiscal charges	1,700,412	-	-	(1,700,412)
Total governmental activities	\$ 22,255,155	\$ 2,081,875	\$ 1,811,470	(18,361,810)
General revenues:				
Property taxes levied for:				
General purposes				5,506,343
Facilities maintenance				110,721
Debt service				1,402,667
Capital				184,562
Income taxes levied for:				
General purposes				2,107,334
Grants and entitlements not restricted to specific programs				
				8,604,577
Investment earnings				212,738
Miscellaneous				19,276
Total general revenues				18,148,218
Change in net position				(213,592)
Net position at beginning of year (restated)				11,306,548
Net position at end of year				\$ 11,092,956

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**NORTHWESTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY, OHIO**

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2015

	General	Bond Retirement	Classroom Facilities	Nonmajor Governmental Funds	Total Governmental Funds
Assets:					
Equity in pooled cash and cash equivalents.	\$ 6,524,450	\$ 868,458	\$ 2,113,180	\$ 1,568,010	\$ 11,074,098
Receivables:					
Property taxes.	5,945,421	1,488,977	-	194,897	7,629,295
Income taxes	836,685	-	-	-	836,685
Accounts	26,147	-	-	2,624	28,771
Accrued interest	5,583	14,929	-	2,180	22,692
Interfund loans	120,000	-	-	-	120,000
Intergovernmental.	199,072	-	108,588	93,002	400,662
Materials and supplies inventory.	53,107	-	-	1,688	54,795
Inventory held for resale.	-	-	-	7,319	7,319
Restricted assets:					
Restricted investments with trustee	-	2,375,698	-	370,895	2,746,593
Total assets	<u>\$ 13,710,465</u>	<u>\$ 4,748,062</u>	<u>\$ 2,221,768</u>	<u>\$ 2,240,615</u>	<u>\$ 22,920,910</u>
Liabilities:					
Accounts payable	\$ 48,901	\$ 275	\$ -	\$ 1,012	\$ 50,188
Contracts payable.	-	-	429,105	-	429,105
Retainage payable.	-	-	657,515	-	657,515
Accrued wages and benefits payable	1,248,856	-	-	72,921	1,321,777
Compensated absences payable	189,810	-	-	6,325	196,135
Intergovernmental payable	291,852	-	-	21,089	312,941
Interfund loans payable.	-	-	-	120,000	120,000
Total liabilities.	<u>1,779,419</u>	<u>275</u>	<u>1,086,620</u>	<u>221,347</u>	<u>3,087,661</u>
Deferred inflows of resources:					
Property taxes levied for the next fiscal year.	5,466,989	1,139,317	-	180,097	6,786,403
Delinquent property tax revenue not available.	273,064	62,379	-	8,813	344,256
Income tax revenue not available	144,817	-	-	-	144,817
Intergovernmental revenue not available.	80,411	-	108,588	45,189	234,188
Accrued interest not available.	3,917	3,399	-	2,180	9,496
Miscellaneous revenue not available.	23,430	-	-	-	23,430
Total deferred inflows of resources	<u>5,992,628</u>	<u>1,205,095</u>	<u>108,588</u>	<u>236,279</u>	<u>7,542,590</u>
Fund balances:					
Nonspendable:					
Materials and supplies inventory.	53,107	-	-	1,688	54,795
Restricted:					
Debt service	-	3,542,692	-	370,895	3,913,587
Capital improvements	-	-	1,026,560	1,191,795	2,218,355
Food service operations	-	-	-	114,126	114,126
Targeted academic assistance	-	-	-	3,887	3,887
Extracurricular.	-	-	-	69,661	69,661
Endowments.	-	-	-	5,357	5,357
Committed:					
Latchkey programs	-	-	-	95,998	95,998
Assigned:					
Student instruction	2,658	-	-	-	2,658
Student and staff support.	75,333	-	-	-	75,333
Facilities acquisition and construction	31,060	-	-	-	31,060
Insurance reserve	71,775	-	-	-	71,775
Unassigned (deficit).	5,704,485	-	-	(70,418)	5,634,067
Total fund balances	<u>5,938,418</u>	<u>3,542,692</u>	<u>1,026,560</u>	<u>1,782,989</u>	<u>12,290,659</u>
Total liabilities, deferred inflows and fund balances	<u>\$ 13,710,465</u>	<u>\$ 4,748,062</u>	<u>\$ 2,221,768</u>	<u>\$ 2,240,615</u>	<u>\$ 22,920,910</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**NORTHWESTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY, OHIO**

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

Total governmental fund balances		\$ 12,290,659
<i>Amounts reported for governmental activities on the statement of net position are different because:</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		48,786,251
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred inflows in the funds.		
Property taxes receivable	\$ 344,256	
Income taxes receivable	144,817	
Accounts receivable	23,430	
Accrued interest receivable	9,496	
Intergovernmental receivable	234,188	
Total	756,187	756,187
Unamortized premiums on bonds issued are not recognized in the funds.		(326,840)
The net pension liability is not due and payable in the current period; therefore, the liability and related deferred inflows/outflows are not reported in governmental funds:		
Deferred outflows of resources - pension	1,385,181	
Deferred inflows of resources - pension	(3,494,862)	
Net pension liability	(19,306,127)	
Total	(21,415,808)	(21,415,808)
Accrued interest payable is not due and payable in the current period and therefore is not reported in the funds.		(8,058)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.		
General obligation bonds	(28,375,000)	
Compensated absences	(614,435)	
Total	(28,989,435)	(28,989,435)
Net position of governmental activities		\$ 11,092,956

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**NORTHWESTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

	<u>General</u>	<u>Bond Retirement</u>	<u>Classroom Facilities</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:					
From local sources:					
Property taxes	\$ 5,510,250	\$ 1,401,232	\$ -	\$ 295,419	\$ 7,206,901
Income taxes	2,103,717	-	-	-	2,103,717
Tuition	1,420,578	-	-	44,441	1,465,019
Earnings on investments	39,959	145,361	4,084	14,158	203,562
Charges for services	-	-	-	248,083	248,083
Extracurricular	134,440	-	-	117,037	251,477
Classroom materials and fees	61,599	-	-	11,945	73,544
Other local revenues	40,906	-	-	28,105	69,011
Intergovernmental - state	7,859,714	216,776	-	62,216	8,138,706
Intergovernmental - federal	56,532	1,015,822	-	1,103,367	2,175,721
Total revenues	<u>17,227,695</u>	<u>2,779,191</u>	<u>4,084</u>	<u>1,924,771</u>	<u>21,935,741</u>
Expenditures:					
Current:					
Instruction:					
Regular	7,667,937	-	-	56,933	7,724,870
Special	2,008,387	-	-	435,152	2,443,539
Vocational	2,268	-	-	-	2,268
Other	94,952	-	-	-	94,952
Support services:					
Pupil	756,040	-	-	91,529	847,569
Instructional staff	661,498	-	-	124,376	785,874
Board of education	96,301	-	-	-	96,301
Administration	1,100,682	7,626	-	789	1,109,097
Fiscal	513,712	15,050	-	1,890	530,652
Operations and maintenance	1,253,418	-	-	17,200	1,270,618
Pupil transportation	1,105,064	-	-	-	1,105,064
Operation of non-instructional services:					
Other non-instructional services	-	-	-	45,984	45,984
Food service operations	-	-	-	572,361	572,361
Extracurricular activities	354,932	-	-	128,680	483,612
Facilities acquisition and construction	32,942	-	952,273	960,812	1,946,027
Debt service:					
Principal retirement	-	250,000	-	-	250,000
Interest and fiscal charges	-	1,646,763	-	80,330	1,727,093
Total expenditures	<u>15,648,133</u>	<u>1,919,439</u>	<u>952,273</u>	<u>2,516,036</u>	<u>21,035,881</u>
Excess (deficiency) of revenues over (under) expenditures	<u>1,579,562</u>	<u>859,752</u>	<u>(948,189)</u>	<u>(591,265)</u>	<u>899,860</u>
Other financing sources (uses):					
Sale of assets	5,029	-	-	-	5,029
Transfers in	-	460,152	-	320,332	780,484
Transfers (out)	(780,484)	-	-	-	(780,484)
Total other financing sources (uses)	<u>(775,455)</u>	<u>460,152</u>	<u>-</u>	<u>320,332</u>	<u>5,029</u>
Net change in fund balances	804,107	1,319,904	(948,189)	(270,933)	904,889
Fund balances at beginning of year	<u>5,134,311</u>	<u>2,222,788</u>	<u>1,974,749</u>	<u>2,053,922</u>	<u>11,385,770</u>
Fund balances at end of year	<u>\$ 5,938,418</u>	<u>\$ 3,542,692</u>	<u>\$ 1,026,560</u>	<u>\$ 1,782,989</u>	<u>\$ 12,290,659</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**NORTHWESTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY, OHIO**

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

Net change in fund balances - total governmental funds	\$	904,889
<i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.		
Capital asset additions	\$ 2,220,700	
Current year depreciation	<u>(3,740,358)</u>	
Total		(1,519,658)
The net effect of various miscellaneous transactions involving capital assets (i.e., sales, disposals, trade-ins, and donations) is to decrease net position.		
		(483,814)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Property taxes	(2,608)	
Income taxes	3,617	
Tuition	(5,983)	
Earnings on investments	9,496	
Intergovernmental	<u>101,300</u>	
Total		105,822
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of net position.		
		250,000
Premiums on bonds are amortized over the life of the issuance in the statement of activities.		
		18,557
Accrued interest payable is not due and payable in the current period and therefore is not reported in the funds.		
		8,124
Contractually required contributions are reported as expenditures in governmental funds; however, the statement of activities reports these amounts as deferred outflows.		
		1,203,096
Except for amounts reported as deferred inflows/outflows, changes in the net pension liability are reported as pension expense in the statement of activities.		
		(815,128)
Some expenses reported in the statement of activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		
		<u>114,520</u>
Change in net position of governmental activities	\$	<u>(213,592)</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**NORTHWESTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY, OHIO**

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

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
From local sources:				
Property taxes	\$ 5,862,387	\$ 5,792,422	\$ 5,779,021	\$ (13,401)
Income taxes	2,225,916	2,198,495	2,096,762	(101,733)
Tuition	1,247,537	1,232,169	1,301,769	69,600
Earnings on investments	20,249	20,000	32,835	12,835
Classroom materials and fees	65,623	64,815	61,599	(3,216)
Rental income	1,519	1,500	-	(1,500)
Other local revenues	5,062	5,000	17,067	12,067
Intergovernmental - state	8,084,603	7,985,009	7,957,340	(27,669)
Intergovernmental - federal	25,312	25,000	56,532	31,532
Total revenues	<u>17,538,208</u>	<u>17,324,410</u>	<u>17,302,925</u>	<u>(21,485)</u>
Expenditures:				
Current:				
Instruction:				
Regular	7,052,711	7,770,644	7,677,568	93,076
Special	1,663,298	1,832,614	1,825,887	6,727
Other	3,632	4,002	4,054	(52)
Support services:				
Pupil	775,402	854,334	851,452	2,882
Instructional staff	661,291	728,607	651,303	77,304
Board of education	95,278	104,977	90,892	14,085
Administration	974,273	1,073,449	1,067,259	6,190
Fiscal	518,303	571,064	515,511	55,553
Operations and maintenance	1,116,714	1,230,390	1,253,550	(23,160)
Pupil transportation	1,095,304	1,206,801	1,111,217	95,584
Extracurricular activities	298,318	328,685	359,582	(30,897)
Facilities acquisition and construction	31,110	34,277	64,002	(29,725)
Total expenditures	<u>14,285,634</u>	<u>15,739,844</u>	<u>15,472,277</u>	<u>267,567</u>
Excess (deficiency) of revenues over (under) expenditures	<u>3,252,574</u>	<u>1,584,566</u>	<u>1,830,648</u>	<u>246,082</u>
Other financing sources (uses):				
Refund of prior year's expenditures	15,000	15,000	96,212	81,212
Transfers (out)	(891,205)	(891,205)	(891,205)	-
Advances (out)	(120,000)	(120,000)	(120,000)	-
Sale of capital assets	2,650	2,650	5,029	2,379
Total other financing sources (uses)	<u>(993,555)</u>	<u>(993,555)</u>	<u>(909,964)</u>	<u>83,591</u>
Net change in fund balance	2,259,019	591,011	920,684	329,673
Fund balance at beginning				
of year (restated)	5,393,235	5,393,235	5,393,235	-
Prior year encumbrances appropriated	20,013	20,013	20,013	-
Fund balance at end of year	<u>\$ 7,672,267</u>	<u>\$ 6,004,259</u>	<u>\$ 6,333,932</u>	<u>\$ 329,673</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**NORTHWESTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY, OHIO**

STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
FIDUCIARY FUNDS
JUNE 30, 2015

	<u>Agency</u>
Assets:	
Equity in pooled cash and cash equivalents	\$ 75,013
Total assets.	<u>\$ 75,013</u>
Liabilities:	
Due to students	\$ 75,013
Total liabilities	<u>\$ 75,013</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**NORTHWESTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

NOTE 1 - DESCRIPTION OF THE DISTRICT AND REPORTING ENTITY

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

The District is located in Clark County. The District is staffed by 72 non-certificated employees including administrative employees and 121 certificated full-time teaching personnel who provide services to 1,720 students and other community members.

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

The District is associated with four jointly governed organizations and one insurance purchasing pool. These organizations are discussed in Note 15 to the basic financial statements. These organizations are:

Jointly Governed Organizations:

- Miami Valley Educational Computer Association
- Southwestern Ohio Educational Purchasing Council
- Southwestern Ohio Instructional Technology Association
- Clark County Family and Children First Council

Insurance Purchasing Pool:

- Ohio School Boards Association Workers' Compensation Group Rating Plan

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

**NORTHWESTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

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

A. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the District. The effect of interfund activity has been removed from these statements. *Governmental activities*, normally are supported by taxes and intergovernmental revenues.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program Revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds and fiduciary fund, even though the latter is excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

B. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within sixty days of the end of the fiscal period. Expenditures generally are recorded when a liability is expected to be liquidated with expendable, available resources. However, debt expenditures for the capital lease and other long-term debt obligations, as well as compensated absences, are recorded only when payment is due.

Property taxes, grants and entitlements, tuition, fees, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered measurable and available only when cash is received by the District.

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. The District employs the use of two categories of funds: governmental and fiduciary.

**NORTHWESTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

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

GOVERNMENTAL FUNDS

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

The District reports the following major governmental funds:

General Fund - The General Fund is the School's District's primary operating fund. It accounts for all financial resources of the District, except those required to be accounted for in another fund.

Bond Retirement Fund - The Bond Retirement Fund is used to account for the accumulation of resources for and the payment of general obligation bond principal and interest and certain other long-term obligations from governmental resources when the District is obligated in some manner for the payment.

Classroom Facilities Fund - The Classroom Facilities Fund is provided to account for monies received and expended in connection with contracts entered into by the District and the Ohio School Facilities Commission for the constructing and equipping of the District's new school buildings.

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 and (b) specific revenue sources that are restricted or committed to an expenditure for specified purposes other than debt service or capital projects.

FIDUCIARY FUND

Fiduciary fund reporting focuses on net position and changes in net position. The District maintains only one fiduciary fund, an agency fund known as the Student Activities Fund. The fund was established to account for revenues generated by student managed activities. The District's agency fund is custodial in nature (assets equal liabilities) and reported on the accrual basis of accounting; however, it does not have a measurement focus.

D. Budgetary Process

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 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 Board of Education determines the District's legal level of control through passage of the appropriation resolution, which was at the object level 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.

**NORTHWESTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

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

Tax Budget - Prior to January 15, the Superintendent and Treasurer submit to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing for all funds. Public hearings are publicized and conducted to obtain taxpayers' comments. The purpose of this budget document is to reflect the need for existing (or increased) tax rates. By no later than January 20, the Board-adopted budget is filed with the Clark County Budget Commission for tax rate determination.

Estimated Resources - Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the County 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 statement reflect the amounts in the final amended certificate that was in effect at the time the 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 legally enacted by the Board of Education. The Board of Education determines the District's legal level of control through passage of the appropriation resolution, which was at the object level for the General Fund and at the fund level for all other funds. 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, by fund, must be within the estimated resources as certified by the County Budget Commission. Some revisions that alter the total of any fund appropriation, or alter total object appropriations within the General Fund 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, several supplemental appropriations were legally enacted; however, none of them were significant. The budget figures that appear in the statement of budgetary comparisons represent the final appropriation amounts, including all supplemental appropriations. Formal budgetary integration is employed as a management control device during the year for all funds, other than agency funds, consistent with statutory provisions.

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 re-appropriated.

E. Cash and Cash Equivalents

To improve cash management, all cash received by the District is pooled in a central bank account. Monies for all funds are maintained in this account or temporarily used to purchase short-term investments. Individual fund integrity is maintained through District records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" on the statement of net position and governmental fund balance sheet.

**NORTHWESTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

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

The District reports the sinking fund mandatory principal payment as “restricted investments with trustee” on the statement of net position and the governmental fund balance sheet.

During fiscal year, the District invested in the State Treasury Assets Reserve of Ohio (STAR Ohio). STAR Ohio is an investment pool managed by the State Treasurer’s Office that 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 that is the price the investment could be sold for on June 30.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year amounted to \$39,959 which includes \$14,420 assigned from other funds.

An analysis of the District’s investments at year end is provided in Note 4.

F. Inventory

Inventories of all funds are stated at cost. Cost is determined on a first-in, first-out basis. Inventory consists of expendable supplies held for consumption. The cost of inventory items is recorded as expenditure when consumed. Reported material and supplies inventory is reported as a nonspendable fund balance on the governmental fund balance sheet which indicates that it does not constitute available expendable resources even though it is a component of net current assets.

G. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed. The related fund balance is reported as nonspendable in the respective fund. At June 30, 2015, the District had no prepaid items.

H. Capital Assets and Depreciation

Capital assets, which include property, plant, equipment, and vehicles, are reported on the government-wide statements. All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The District’s capitalization threshold is \$5,000. The District does not possess any infrastructure.

Improvements are capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset’s life are not capitalized.

**NORTHWESTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

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

Depreciation is computed using the straight-line method over an estimated useful life of eight years for vehicles, five to fifteen years for furniture and equipment, thirty to forty years for building and building improvements and fifteen to twenty years for land improvements. Improvements to fund capital assets are depreciated over the remaining useful lives of the related assets.

I. Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables". These amounts are eliminated in the governmental type activities columns of the statement of net position.

J. Compensated Absences

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

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

For governmental funds, the current portion of unpaid compensated absences is the amount normally due for payment during the current year. Matured leave payable in the fund financial statements represents the entire current portion. These amounts are reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements. The entire liability is reported on the government-wide statement of net position.

K. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and other long-term obligations are reported on the government-wide financial statements. In general, governmental fund payables and accrued liabilities are reported as obligations of the funds regardless of whether they will be liquidated with current resources. However, compensated absences are reported as liabilities in the fund financial statements only to the extent they come due as a result of employee resignation or retirement.

L. Interfund Transactions

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

**NORTHWESTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

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

M. Deferred Outflows of Resources and Deferred Inflows of Resources

In addition to assets, the government-wide statement of net position will report a separate section for deferred outflows of resources. Deferred outflows of resources, represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. For the District, deferred outflows of resources have been reported for the following two items related the District's net pension liability: (1) the difference between expected and actual experience of the pension systems, and (2) the District's contributions to the pension systems subsequent to the measurement date.

In addition to liabilities, both the government-wide statement of net position and the governmental fund financial statements report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. For the District, deferred inflows of resources include property taxes and unavailable revenue. Property taxes represent amounts for which there is an enforceable legal claim as of June 30, 2015, but which were levied to finance fiscal year 2016 operations. These amounts have been recorded as a deferred inflow of resources on both the government-wide statement of net position and the governmental fund financial statements. Unavailable revenue is reported only on the governmental funds balance sheet, and represents receivables which will not be collected within the available period. For the District unavailable revenue includes, but is not limited to, delinquent property taxes and intergovernmental grants. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available.

The District also reports a deferred inflow of resources for the net difference between projected and actual earnings on pension plan investments related to the District's net pension liability. This deferred inflow of resources is only reported on the government-wide statement of net position.

N. Exchange/Non-Exchange Transactions

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

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

**NORTHWESTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

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

O. Restricted Assets

Restricted investments with trustee represent the year-end balance in the mandatory sinking fund related to the payments made as part of the trustee indenture. Similar payments related to the Energy Conservation Bonds are also reported as restricted assets.

P. Fund Balance

Fund 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. It also includes the long-term amount of loans receivable.

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. The Board has, by resolution, authorized the Treasurer to assign fund balances for encumbrances outstanding at year-end.

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.

**NORTHWESTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

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

The District applies restricted resources first when expenditures 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 expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

Q. Net Position

Net position represents the difference between assets and deferred outflows and liabilities and deferred inflows. The net position component "net investment in capital assets," consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction or improvement of those assets or related debt also should be included in this component of net position. Net position is reported as restricted when there are limitations imposed on its use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

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

R. Estimates

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

S. Budget Stabilization Arrangement

The District has established a budget stabilization reserve in accordance with authority established by State law. Additions to the budget stabilization reserve can only be made by formal resolution of the Board of Education. Expenditures out of the budget stabilization reserve can only be made to offset future budget deficits. At June 30, 2015, the balance in the budget stabilization reserve was \$39,318. This amount is included in unassigned fund balance of the general fund and in unrestricted net position on the statement of net position.

T. Pensions

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

**NORTHWESTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

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

U. 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 2015.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principles/Restatement of Net Position

For fiscal year 2015, the District has implemented GASB Statement No. 68, *“Accounting and Financial Reporting for Pensions - an Amendment of GASB Statement No. 27”*, GASB Statement No. 69 *“Government Combinations and Disposals of Government Operations”*, and GASB Statement No. 71, *“Pension Transition for Contributions Made Subsequent to the Measurement Date - an Amendment of GASB Statement No. 68”*.

GASB Statement No. 69 establishes accounting and financial reporting standards related to government combinations and disposals of government operations. The Statement improves the decision usefulness of financial reporting by requiring that disclosures be made by governments about combination arrangements in which they engage and for disposals of government operations. The implementation of GASB Statement No. 69 did not have an effect on the financial statements of the District.

GASB Statement No. 68 improves the accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. The implementation of GASB Statement No. 68 affected the District’s pension plan disclosures, as presented in Note 12 to the financial statements, and added required supplementary information which is presented on pages 59 - 65.

GASB Statement No. 71 improves the accounting and financial reporting by addressing an issue in GASB Statement No. 68, concerning transition provisions related to certain pension contributions made to defined benefit pension plans prior to implementation of that Statement by employers and nonemployer contributing entities.

A net position restatement is required in order to implement GASB Statement No 68 and 71. The governmental activities at July 1, 2014 have been restated as follows:

	Governmental Activities
Net position as previously reported	\$ 33,110,324
Deferred outflows - payments subsequent to measurement date	1,138,788
Net pension liability	(22,942,564)
Restated net position at July 1, 2014	\$ 11,306,548

**NORTHWESTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

Other than employer contributions subsequent to the measurement date, the District made no restatement for deferred inflows/outflows of resources as the information needed to generate these restatements was not available. The restatement had no effect on fund balances.

B. Deficit Fund Balances

Fund balances at June 30, 2015 included the following individual fund deficits:

<u>Nonmajor funds</u>	<u>Deficit</u>
Building fund	\$ 70,418

The general fund is liable for any deficit in this fund and provides transfers when cash is required, not when accruals occur. The deficit fund balance resulted from adjustments for accrued liabilities.

C. Budgetary Prior Period Adjustment

In the prior year, the District’s budgetary statement included various errors and omissions; therefore, a restatement to the beginning budgetary balance is required. The restatement of the general fund’s budgetary-basis fund balance at June 30, 2014 is as follows:

Budgetary Basis	
	<u>General Fund</u>
Balance at June 30, 2014	\$ 4,727,480
Error and omissions	<u>665,755</u>
Restated balance at July 1, 2014	<u>\$ 5,393,235</u>

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.

**NORTHWESTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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 debt interests rated in either of the two highest classifications by at least two nationally recognized rating agencies.

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

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

**NORTHWESTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

A. Restricted Investments with Trustee

At fiscal year end, \$2,746,593 was on deposit with an escrow agent for monies held in relation to the District's sinking fund deposits that are required for the District's Series 2010 Qualified School Construction bonds and the Series 2011 Qualified School Construction bonds (See Note 10).

These funds are not included in the "carrying amount of deposits".

B. Deposits with Financial Institutions

At June 30, 2015, the carrying amount of all District deposits was \$6,524,885. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2015, \$6,819,565 of the District's bank balance of \$7,069,565 was exposed to custodial risk as discussed below, while \$250,000 was covered by the Federal Deposit Insurance Corporation.

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.

C. Investments

As of June 30, 2015, the District had the following investments and maturities:

Investment type	Fair Value	Investment Maturities				
		6 months or less	7 to 12 months	13 to 18 months	19 to 24 months	Greater than 24 months
FHLB	\$ 1,110,111	\$ -	\$ 435,171	\$ -	\$ -	\$ 674,940
FHLMC	1,646,735	-	250,340	244,218	-	1,152,177
FNMA	1,215,695	-	250,347	451,085	-	514,263
U.S. Government money market	8,078	8,078	-	-	-	-
Commercial Paper	219,936	219,936	-	-	-	-
U.S. Treasury Notes	265,124	265,124	-	-	-	-
STAR Ohio	158,547	158,547	-	-	-	-
Total	<u>\$ 4,624,226</u>	<u>\$ 651,685</u>	<u>\$ 935,858</u>	<u>\$ 695,303</u>	<u>\$ -</u>	<u>\$ 2,341,380</u>

The weighted average maturity of investments is 2.06 years.

**NORTHWESTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

Interest Rate Risk: As a means of limiting its exposure to fair value losses arising from rising interest rates and according to State law, the District's investment policy limits investment portfolio maturities to five years or less. The District's investment policy also requires that the investment portfolio be structured so that securities mature to meet cash requirements for ongoing operations and/or long-term debt payments. The stated intent of the policy is to avoid the need to sell securities prior to maturity.

Credit Risk: The District's investments in federal agency securities and U.S Treasury obligations were rated AA+ and Aaa by Standard & Poor's and Moody's Investor Services, respectively. STAR Ohio and the U.S. government money market mutual funds were rated AAAM by Standard & Poor's. The commercial paper was rated A-1+ and P-1 by Moody's and Standard & Poor's, respectively. The District has no investment policy that would further limit its investment choices.

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The federal agency securities, U.S. Treasury notes and commercial paper are exposed to custodial credit risk in that they are uninsured, unregistered and held by the counterparty's trust department or agent, but not in the District's name. The District has no investment policy dealing with investment custodial risk beyond the requirement in State statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the treasurer or qualified trustee.

Concentration of Credit Risk: The District places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the District at June 30, 2015:

<u>Investment type</u>	<u>Fair Value</u>	<u>% of Total</u>
FHLB	\$ 1,110,111	24.01
FHLMC	1,646,735	35.61
FNMA	1,215,695	26.29
U.S. Government money market	8,078	0.17
Commercial Paper	219,936	4.76
U.S. Treasury Notes	265,124	5.73
STAR Ohio	158,547	3.43
	<u>\$ 4,624,226</u>	<u>100.00</u>

**NORTHWESTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

D. 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, 2015:

<u>Cash and investments per note</u>	
Carrying amount of deposits	\$ 6,524,885
Restricted investments with trustee	2,746,593
Investments	<u>4,624,226</u>
Total	<u>\$ 13,895,704</u>
 <u>Cash and investments per statement of net position</u>	
Governmental activities	\$ 13,820,691
Agency fund	<u>75,013</u>
Total	<u>\$ 13,895,704</u>

NOTE 5 - INTERFUND TRANSACTIONS

- A.** Interfund balances at June 30, 2015 consisted of the following interfund loans receivable and payable, as reported on the fund financial statements:

General fund	Nonmajor governmental funds	<u>\$ 120,000</u>
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The primary purpose of these interfund balances is to cover costs in specific funds where revenues were not received by June 30. These interfund balances will be repaid once the anticipated revenues are received. All interfund balances are expected to be repaid within one year.

Interfund balances between governmental funds are eliminated on the government-wide financial statements.

- B.** Interfund transfers for the year ended June 30, 2015, consisted of the following, as reported in the fund financial statements:

Transfers from the general fund to:

Bond retirement fund	\$ 460,152
Nonmajor governmental fund	<u>320,332</u>
Total	<u>\$ 780,484</u>

The primary purpose of these transfers is to use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations. All transfers made in fiscal year 2015 were in accordance with Ohio Revised Code Sections 5705.14, 5705.15 and 5705.16.

**NORTHWESTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

NOTE 5 - INTERFUND TRANSACTIONS - (Continued)

Interfund transfers between governmental funds are eliminated for reporting 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 2015 represent the collection of calendar year 2014 taxes. Real property taxes received in calendar year 2015 were levied after April 1, 2014, on the assessed values as of January 1, 2014, the lien date. Assessed values for real property taxes are established by State statute at 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 2015 represent the collection of calendar year 2014 taxes. Public utility real and personal property taxes received in calendar year 2015 became a lien on December 31, 2013, were levied after April 1, 2014, and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

The District receives property taxes from Clark and Champaign Counties. The County Auditors periodically advance to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2015, are available to finance fiscal year 2015 operations. The amount available as an advance at June 30, 2015 was \$205,368 in the general fund, \$287,281 in the bond retirement fund and \$5,987 in the permanent improvement fund (a nonmajor governmental fund). This amount is recorded as revenue. The amount available for advance at June 30, 2014 was \$363,418 in the general fund, \$271,222 in the bond retirement fund and \$11,227 in the permanent improvement fund (a nonmajor governmental fund). 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.

Accrued property taxes receivable includes real property, public utility property and delinquent tangible personal property taxes which are measurable as of June 30, 2015 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year-end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred inflows.

On the accrual basis of accounting, collectible delinquent property taxes have been recorded as a receivable and revenue, while on a modified accrual basis of accounting the revenue has been reported as a deferred inflow.

**NORTHWESTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

NOTE 6 - PROPERTY TAXES - (Continued)

The assessed values upon which the fiscal year 2015 taxes were collected are:

	2014 Second Half Collections		2015 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and other real estate	\$ 219,307,660	96.71	\$ 218,228,590	96.62
Public utility personal	<u>7,459,100</u>	<u>3.29</u>	<u>7,641,620</u>	<u>3.38</u>
Total	<u>\$ 226,766,760</u>	<u>100.00</u>	<u>\$ 225,870,210</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation	\$38.76		\$39.08	

NOTE 7 - INCOME TAX

The District levies an income tax of one percent on substantially all income earned by District residents.

Employers with employees based in the state of Ohio are required to withhold income tax on employee compensation and remit the tax to the Ohio Department of Taxation either monthly or quarterly. Individuals may make estimated payments.

Income tax proceeds are to be used to pay General Fund operations of the District. The proceeds are allocated to the General Fund. Income tax revenue for fiscal year 2015 on the modified accrual basis was \$2,103,717.

NOTE 8 - RECEIVABLES

Receivables at June 30, 2015 consisted of taxes, accounts (billings for user charged services, rentals and student fees), accrued interest and intergovernmental grants and entitlements. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs and the current year guarantee of federal funds. A summary of the principal items of receivables reported on the statement of net position follows:

Governmental activities	
Property taxes	\$ 7,629,295
Income taxes	836,685
Accounts	28,771
Intergovernmental	400,662
Accrued interest	<u>22,692</u>
Total governmental activities	<u>\$ 8,918,105</u>

Receivables have been disaggregated on the face of the basic financial statements. All receivables are expected to be collected within the subsequent year.

**NORTHWESTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

NOTE 9 - CAPITAL ASSETS

Capital asset activity for the fiscal year-ended June 30, 2015, was as follows:

	<u>Balance</u> <u>June 30, 2014</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2015</u>
Governmental activities:				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 949,676	\$ -	\$ (470,072)	\$ 479,604
Total capital assets, not being depreciated	<u>949,676</u>	<u>-</u>	<u>(470,072)</u>	<u>479,604</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	6,334,303	1,918,169	-	8,252,472
Buildings and improvements	41,984,711	50,410	-	42,035,121
Furniture and equipment	3,456,531	51,878	(739,718)	2,768,691
Vehicles	1,828,814	200,243	(179,190)	1,849,867
Total capital assets, being depreciated	<u>53,604,359</u>	<u>2,220,700</u>	<u>(918,908)</u>	<u>54,906,151</u>
<i>Less: accumulated depreciation</i>				
Land improvements	(684,758)	(888,151)	-	(1,572,909)
Buildings and improvements	(1,264,110)	(1,587,895)	-	(2,852,005)
Furniture and equipment	(415,125)	(1,183,503)	725,976	(872,652)
Vehicles	(1,400,319)	(80,809)	179,190	(1,301,938)
Total accumulated depreciation	<u>(3,764,312)</u>	<u>(3,740,358)</u>	<u>905,166</u>	<u>(6,599,504)</u>
Governmental activities capital assets, net	<u>\$ 50,789,723</u>	<u>\$ (1,519,658)</u>	<u>\$ (483,814)</u>	<u>\$ 48,786,251</u>

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$ 2,528,547
Support Services:	
Instructional staff	652,816
Operations and maintenance	221,424
Pupil transportation	84,790
Operation of non instructional services:	
Food service operations	170,304
Extracurricular activities	<u>82,477</u>
Total depreciation expense	<u>\$ 3,740,358</u>

**NORTHWESTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

NOTE 10 - LONG-TERM OBLIGATIONS

During the fiscal year 2015, the following changes occurred in governmental activities long-term obligations. The long-term obligations at June 30, 2014 have been restated as described in Note 3.A.

	Restated Balance			Balance	Amounts Due in
	<u>June 30, 2014</u>	<u>Increase</u>	<u>Decrease</u>	<u>June 30, 2015</u>	<u>One Year</u>
General obligation bonds:					
Series 2010, QSCB	\$ 15,000,000	\$ -	\$ -	\$ 15,000,000	\$ -
Series 2011, QSCB	1,385,000	-	-	1,385,000	-
Series 2010, BABs	12,240,000	-	(250,000)	11,990,000	250,000
Net pension liability	22,942,564	-	(3,636,437)	19,306,127	-
Compensated absences	<u>811,743</u>	<u>369,385</u>	<u>(370,558)</u>	<u>810,570</u>	<u>260,088</u>
Total	<u>\$ 52,379,307</u>	<u>\$ 369,385</u>	<u>\$ (4,256,995)</u>	48,491,697	<u>\$ 510,088</u>
Add: Unamortized premium on refunding				<u>326,840</u>	
Total on statement of net position				<u>\$ 48,818,537</u>	

See Note 12 for detail on the District's net pension liability.

Compensated absences will be paid from the fund from which the employees' salaries are paid.

The District's overall legal debt margin was \$23,871,011 with an unvoted debt margin of \$225,870 and an energy conservation debt margin of \$2,032,832 at June 30, 2015. In November, 2009, voters in the District approved the issuance of bonds for the construction of two new school buildings to replace the three buildings currently in use.

On May 26, 2010, the District sold Qualified School Construction Bonds in the amount of \$15,000,000. The entire principal is due December 1, 2026. The bonds were sold at a taxable rate of 5.82%. The United States Treasury will issue checks to the District to pay 5.50% interest. The net interest cost to the district will be 0.32%. The amortization schedule with net interest and the sinking fund payment is as follows:

Fiscal Year Ending,	Series 2010, Qualified School Construction Bonds - Building		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ -	\$ 48,000	\$ 48,000
2017	-	48,000	48,000
2018	-	48,000	48,000
2019	-	48,000	48,000
2020	-	48,000	48,000
2021 - 2025	-	240,000	240,000
2026 - 2027	<u>15,000,000</u>	<u>96,000</u>	<u>15,096,000</u>
Total	<u>\$ 15,000,000</u>	<u>\$ 576,000</u>	<u>\$ 15,576,000</u>

**NORTHWESTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

NOTE 10 - LONG-TERM OBLIGATIONS - (Continued)

The District is making mandatory sinking fund payments that are kept with the trustee to make the December 1, 2026 principal payment.

On November 23, 2010, the District sold Build America Bonds in the amount of \$13,240,000. The final principal payment is due December 1, 2038. The bonds were sold at an average net interest rate of 4.21%. The United States Treasury will issue checks to the District to pay 35% of interest costs. The amortization schedule with net interest and the principal fund payment is as follows:

<u>Fiscal Year Ending,</u>	Series 2010, Build America Bonds		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 250,000	\$ 501,321	\$ 751,321
2017	250,000	497,502	747,502
2018	200,000	490,189	690,189
2019	200,000	484,339	684,339
2020	200,000	478,489	678,489
2021 - 2025	850,000	2,292,973	3,142,973
2026 - 2030	1,990,000	2,113,499	4,103,499
2031 - 2035	4,050,000	1,455,143	5,505,143
2036 - 2039	4,000,000	449,109	4,449,109
Total	\$ 11,990,000	\$ 8,762,564	\$ 20,752,564

On March 31, 2011, the District sold Qualified School Construction Bonds for a HB 264 Energy Conservation Project in the amount of \$1,385,000. The entire principal is due December 1, 2025. The bonds were sold at a taxable rate of 5.80%. The United States Treasury will issue checks to the District to pay 5.30% interest. The net interest cost to the District will be 0.50%. The amortization schedule with net interest and the sinking fund payment is as follows:

<u>Fiscal Year Ending,</u>	Series 2011, Qualified School Construction Bonds - HB 264		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ -	\$ 6,925	\$ 6,925
2017	-	6,925	6,925
2018	-	6,925	6,925
2019	-	6,925	6,925
2020	-	6,925	6,925
2021 - 2025	-	34,625	34,625
2026	1,385,000	6,925	1,391,925
Total	\$ 1,385,000	\$ 76,175	\$ 1,461,175

The District is making mandatory sinking fund payments that are kept with the trustee to make the December 1, 2025 principal payment.

**NORTHWESTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

NOTE 11 - RISK MANAGEMENT

A. Property and Liability

The District is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2015, the District contracted with the Southwestern Ohio EPC Liability, Fleet & Property Program (LFP) and Arthur J. Gallagher & Co. for property, general liability, professional and fleet insurance. Coverage provided by the LFP is as follows:

Building and Contents - replacement cost (\$5,000 deductible)	-\$350,000,000 Blanket Limit -Refer to Statement of Value for specific limits
Boiler and Machinery (\$3,500 deductible)	\$ 250,000,000
Automobile Liability (no deductible)	1,000,000
Professional Liability (\$10,000 deductible)	
Single Occurrence	1,000,000
Aggregate	1,000,000
General Liability (no deductible)	
Per Occurrence	1,000,000
Total per year (per member)	3,000,000
Excess Liability/Umbrella (no deductible)	
Per Occurrence	5,000,000
Total per year (per member)	5,000,000
Pollution Legal Liability (\$25,000 deductible)	
Per Occurrence	1,000,000
Total Aggregate Limit	10,000,000

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

B. Workers' Compensation

For fiscal year 2015, the District participated in the Ohio School Board Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool. 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 performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "equity pooling fund." The "equity pooling" 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 Comp Management Inc. provides administrative, cost control and actuarial services to the GRP.

**NORTHWESTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

NOTE 12 - DEFINED BENEFIT PENSION PLANS

Net Pension Liability

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

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

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

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

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

Plan Description - School Employees Retirement System (SERS)

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

**NORTHWESTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

NOTE 12 - DEFINED BENEFIT PENSION PLANS - (Continued)

Age and service requirements for retirement are as follows:

	Eligible to Retire on or before August 1, 2017 *	Eligible to Retire 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, 2015, the allocation to pension, death benefits, and Medicare B was 13.18 percent. The remaining 0.82 percent of the 14 percent employer contribution rate was allocated to the Health Care Fund.

The District's contractually required contribution to SERS was \$256,561 for fiscal year 2015. Of this amount \$28,530 is reported as intergovernmental payable.

Plan Description - State Teachers Retirement System (STRS)

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

**NORTHWESTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

NOTE 12 - DEFINED BENEFIT PENSION PLANS - (Continued)

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

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

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

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

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

Funding Policy – Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. The statutory maximum employee contribution rate was increased one percent July 1, 2014, and will be increased one percent each year until it reaches 14 percent on July 1, 2016. For the fiscal year ended June 30, 2015, plan members were required to contribute 12 percent of their annual covered salary. The District was required to contribute 14 percent; the entire 14 percent was the portion used to fund pension obligations. The fiscal year 2015 contribution rates were equal to the statutory maximum rates.

**NORTHWESTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

NOTE 12 - DEFINED BENEFIT PENSION PLANS - (Continued)

The District's contractually required contribution to STRS was \$946,535 for fiscal year 2015. Of this amount, \$79,820 is reported as intergovernmental payable.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's share of contributions to the pension plan relative to the contributions of all participating entities. Following is information related to the proportionate share and pension expense:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportionate share of the net pension liability	\$ 3,385,062	\$ 15,921,065	\$ 19,306,127
Proportion of the net pension liability	0.06688600%	0.06545559%	
Pension expense	\$ 197,541	\$ 617,587	\$ 815,128

At June 30, 2015, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Deferred outflows of resources			
Differences between expected and actual experience	\$ 28,810	\$ 153,275	\$ 182,085
District contributions subsequent to the measurement date	<u>256,561</u>	<u>946,535</u>	<u>1,203,096</u>
Total deferred outflows of resources	<u>\$ 285,371</u>	<u>\$ 1,099,810</u>	<u>\$ 1,385,181</u>
Deferred inflows of resources			
Net difference between projected and actual earnings on pension plan investments	<u>\$ 549,405</u>	<u>\$ 2,945,457</u>	<u>\$ 3,494,862</u>

\$1,203,096 reported as deferred outflows of resources related to pension resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

**NORTHWESTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

NOTE 12 - DEFINED BENEFIT PENSION PLANS - (Continued)

Fiscal Year Ending June 30:	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
2016	\$ (130,148)	\$ (698,045)	\$ (828,193)
2017	(130,148)	(698,045)	(828,193)
2018	(130,148)	(698,045)	(828,193)
2019	<u>(130,151)</u>	<u>(698,047)</u>	<u>(828,198)</u>
Total	<u>\$ (520,595)</u>	<u>\$ (2,792,182)</u>	<u>\$ (3,312,777)</u>

Actuarial Assumptions - SERS

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

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

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

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

**NORTHWESTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

NOTE 12 - DEFINED BENEFIT PENSION PLANS - (Continued)

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

<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	<u>15.00</u>	7.50
 Total	 <u><u>100.00 %</u></u>	

Discount Rate The total pension liability was calculated using the discount rate of 7.75 percent. The projection of cash flows used to determine the discount rate assumed the contributions from employers and from the members would be computed based on contribution requirements as stipulated by State statute. Projected inflows from investment earnings 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	\$ 4,829,478	\$ 3,385,062	\$ 2,170,184

**NORTHWESTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

NOTE 12 - DEFINED BENEFIT PENSION PLANS - (Continued)

Actuarial Assumptions - STRS

The total pension liability in the June 30, 2014, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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

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

Actuarial assumptions used in the June 30, 2014, valuation are based on the results of an actuarial experience study, effective July 1, 2012.

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

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

Discount Rate The discount rate used to measure the total pension liability was 7.75 percent as of June 30, 2014. The projection of cash flows used to determine the discount rate assumes member and employer contributions will be made at the statutory contribution rates in accordance with rate increases described above. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, STRS' fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 2014. Therefore, the long-term expected rate of return on pension plan investments of 7.75 percent was applied to all periods of projected benefit payment to determine the total pension liability as of June 30, 2014.

**NORTHWESTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

NOTE 12 - DEFINED BENEFIT PENSION PLANS - (Continued)

Sensitivity of the District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

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

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
District's proportionate share of the net pension liability	\$ 22,792,740	\$ 15,921,065	\$ 10,109,940

NOTE 13 - 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 2015, 0.82 percent 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 2015, this amount was \$20,450. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2015, the District's surcharge obligation was \$34,548.

**NORTHWESTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

NOTE 13 - POSTEMPLOYMENT BENEFITS - (Continued)

The District's contributions for health care for the fiscal years ended June 30, 2015, 2014, and 2013 were \$50,201, \$36,952, and \$37,154, respectively. For fiscal year 2015, 90.06 percent has been contributed, with the balance being reported as intergovernmental payable. The full amount has been contributed for fiscal years 2014 and 2013.

B. State Teachers Retirement System

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

Funding Policy – Ohio Revised Code Chapter 3307 authorizes STRS to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS. Active employee members do not contribute to the Health Care Plan. All benefit recipients, for the most recent year, pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For fiscal year 2015, STRS did not allocate any employer contributions to post-employment health care. The District's contributions for health care for the fiscal years ended June 30, 2015, 2014, and 2013 were \$0, \$67,934, and \$67,018 respectively. The full amount has been contributed for fiscal years 2015, 2014 and 2013.

NOTE 14 - EMPLOYEE BENEFITS

A. Compensated Absences

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

Teachers and administrators earn sick leave at the rate of one and one-fourth days per month. Classified employees earn 4.6 hours for 80 hours worked. Sick leave may be accumulated up to a maximum of 255 days for classified and certified personnel. Upon retirement, payment is made for 25 percent for teachers and 25 percent for other employees of accrued, but unused sick leave credit to a maximum of 55 days for certified employees.

B. Insurance Benefits

The District provides life insurance through Sun Life and accidental death and dismemberment insurance through Anthem to most employees. Medical/surgical benefits are provided through Anthem, dental insurance through Core Source, and vision insurances through Vision Service Plan.

**NORTHWESTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

NOTE 15 - JOINTLY GOVERNED ORGANIZATIONS AND INSURANCE PURCHASING POOL

A. Jointly Governed Organizations

Miami Valley Educational Computer Association - The District is a participant in the Miami Valley Educational Computer System (MVECA) which is a computer consortium. MVECA is an association of public schools within the boundaries of Clark, Clinton, Fayette, Greene, and Highland Counties and Cities of Springfield, Wilmington, Washington Court House, Xenia, and Hillsboro. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member districts.

The governing board of MVECA consists of three Superintendents and three Treasurers of member Districts, with three of the four Superintendents and all three Treasurers elected by a majority vote of all member Districts except the Greene County Career Center. The fourth Superintendent is from the Greene County Career Center. The District paid MVECA \$207,499 for services provided during the year.

Financial information can be obtained from Thor Sage, who serves as Executive Director, at 330 East Enon Road, Yellow Springs, Ohio 45387.

Southwestern Ohio Educational Purchasing Council - The Southwestern Ohio Educational Purchasing Council (SOEPC) is a purchasing cooperative made up of nearly 126 Districts in 18 counties. The purpose of the cooperative is to obtain prices for quality merchandise and services commonly used by schools. All member districts are obligated to pay all fees, charges, or other assessments as established by the SOEPC.

One year prior notice is necessary for withdrawal from the group. During this time, the withdrawing member is liable for all member obligations. Payments to SOEPC are made from the General Fund. During the fiscal year, the District paid \$81,594 for its medical, dental and vision insurances through the SOEPC. To obtain financial information, write to the Southwestern Ohio Educational Purchasing Cooperative, Ken Swink, who serves as Director, at 303 Corporate Center Dr., Vandalia, Ohio 45373.

Southwestern Ohio Instructional Technology Association - The Southwestern Ohio Instructional Technology Association (SOITA) is a not-for-profit corporation formed under Section 1702.01 of the Ohio Revised Code. The purpose of the corporation is to serve the educational needs of the area through television programming for the advancement of educational programs.

The Board of Trustees is comprised of twenty-one representatives of SOITA member schools or institutions. The qualified members within the counties, i.e. Auglaize, Butler, Champaign, Clark, Clinton, Darke, Fayette, Greene, Hamilton, Logan, Mercer, Miami, Montgomery, Preble, Shelby, and Warren. Montgomery, Greene and Butler Counties elect two representatives per area. One at-large non-public representative is elected by the non-public school SOITA members as the state-assigned SOITA service area representative. One at-large higher education representative is elected by higher education SOITA members from within state-assigned SOITA service area.

All member districts are obligated to pay all fees, charges, or other assessments as established by the SOITA. Upon dissolution, the net position shall be distributed to the federal government, or to a state or local government, for a public purpose. Payments to SOITA are made from the General Fund. During the fiscal year, the District made no payments to SOITA. To obtain financial information, write to the Southwestern Ohio Instructional Technology Association, Larry Pogue, who serves as Director, at 150 East Sixth Street, Franklin, Ohio 45005.

**NORTHWESTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

**NOTE 15 - JOINTLY GOVERNED ORGANIZATIONS AND INSURANCE PURCHASING POOL -
(Continued)**

Clark County Family and Children First Council - The Clark County Family and Children First Council (the Council) is a voluntary association established with the purpose to coordinate and integrate those services within Clark County which are available for families and children and to establish a comprehensive, coordinated, multi-disciplinary, interagency system for the delivery of such services in order to more effectively meet the needs of families and children.

The Board of Trustees is comprised of eighteen representatives of each of the members of the Council, including the Superintendent of the Clark County Educational Service Center, who was appointed by the Superintendents of the Clark County schools. All members are obligated to pay all dues as established by the Council to aid the financing of the operations and programs of the Council. The Northwestern Local School District does not pay any dues since the Clark County Educational Service Center represents the District. Any member withdrawing from the Council must give one hundred eighty days written notice to the Council after formal action of the member's governing board. To obtain financial information, write to the Clark County Family and Children First Council, Marilyn Demma, who serves as Treasurer, at 1345 Lagonda Avenue, Springfield, Ohio 45502.

B. Insurance Purchasing Pool

The District participates in the Ohio School Boards Association (OSBA) Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool. The GRP's business and affairs are conducted by a three member Board of directors consisting of the President, the President-Elect and the Immediate Past President of the OSBA. The Executive Director of the OSBA, or his designee, serves as coordinator of the program. Each year, the participating Districts pay an enrollment fee to the GRP to cover the costs of administering the plan. The District paid \$4,172 during 2015 to participate in the pool.

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 involved in no material litigation as either plaintiff or defendant.

**NORTHWESTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

NOTE 16 - CONTINGENCIES - (Continued)

C. Foundation Funding

District Foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. Effective for the 2014-2015 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, 2015 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 receivable to or liability of the District.

NOTE 17 - BUDGETARY BASIS OF ACCOUNTING

While reporting financial position, results of operations, and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts and disbursements.

The statement of revenue, expenditures and changes in fund balance - budget and actual (non-GAAP 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 budget basis and the GAAP basis are that:

- (a) Revenues and other financing sources are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- (b) Expenditures and other financing uses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);
- (c) 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 an expenditure, as opposed to assigned or committed fund balance for that portion of outstanding encumbrances not already recognized as an account payable (GAAP basis);
- (d) Advances-in and advances-out are operating transactions (budget basis) as opposed to balance sheet transactions (GAAP basis); and,
- (e) Some funds are included in the general fund (GAAP basis), but have separate legally adopted budgets (budget basis).

**NORTHWESTERN LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

NOTE 17 - BUDGETARY BASIS OF ACCOUNTING - (Continued)

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

Net Change in Fund Balance

	<u>General fund</u>
Budget basis	\$ 920,684
Net adjustment for revenue accruals	(231,448)
Net adjustment for expenditure accruals	(50,591)
Net adjustment for other sources/uses	134,509
Funds budgeted elsewhere	(16,229)
Adjustment for encumbrances	47,182
GAAP basis	\$ 804,107

Certain funds that are legally budgeted in separate special revenue funds are considered part of the general fund on a GAAP basis. This includes the public school support fund, the District agency fund, the internal service fund and the underground storage tank fund.

NOTE 18 - 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.

**NORTHWESTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

NOTE 18 - SET-ASIDES - (Continued)

	<u>Capital Improvements</u>
Set-aside balance June 30, 2014	\$ -
Current year set-aside requirement	305,515
Contributions in excess of the current fiscal year set-aside requirement	-
Current year qualifying expenditures	(135,963)
Excess qualified expenditures from prior years	-
Current year offsets	(219,413)
Waiver granted by ODE	-
Prior year offset from bond proceeds	<u>-</u>
Total	<u>\$ (49,861)</u>
Balance carried forward to fiscal year 2016	<u>\$ -</u>
Set-aside balance June 30, 2015	<u><u>\$ -</u></u>

During a prior fiscal year, the District issued \$29,625,000 in capital related school improvement bonds. These proceeds may be used to reduce the capital improvements set-aside amount to below zero for future years. The amount presented for prior year offset from bond proceeds is limited to an amount needed to reduce the capital improvements set-aside balance to \$0. The District is responsible for tracking the amount of bond proceeds that may be used as an offset in future periods, which was \$29,355,306 at June 30, 2015.

NOTE 19 - 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>Fund</u>	<u>Year-End Encumbrances</u>
General fund	\$ 44,843
Classroom facilities fund	427,648
Other governmental	<u>355,264</u>
Total	<u><u>\$ 827,755</u></u>

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REQUIRED SUPPLEMENTARY INFORMATION

**NORTHWESTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY, OHIO**

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF
THE NET PENSION LIABILITY
SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS) OF OHIO

LAST TWO FISCAL YEARS (1)

	2014	2013
District's proportion of the net pension liability	0.06688600%	0.06688600%
District's proportionate share of the net pension liability	\$ 3,385,062	\$ 3,977,496
District's covered-employee payroll	\$ 1,943,579	\$ 1,947,312
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	174.17%	204.26%
Plan fiduciary net position as a percentage of the total pension liability	71.70%	65.52%

(1) Information prior to 2013 is not available.

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

**NORTHWESTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY, OHIO**

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF
THE NET PENSION LIABILITY
STATE TEACHERS RETIREMENT SYSTEM (STRS) OF OHIO

LAST TWO FISCAL YEARS (1)

	2014	2013
District's proportion of the net pension liability	0.06545559%	0.06545559%
District's proportionate share of the net pension liability	\$ 15,921,065	\$ 18,965,068
District's covered-employee payroll	\$ 6,687,754	\$ 6,701,808
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	238.06%	282.98%
Plan fiduciary net position as a percentage of the total pension liability	74.70%	69.30%

(1) Information prior to 2013 is not available.

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

**NORTHWESTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY, OHIO**

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF DISTRICT CONTRIBUTIONS
SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS) OF OHIO

LAST TEN FISCAL YEARS

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
Contractually required contribution	\$ 256,561	\$ 269,380	\$ 269,508	\$ 341,123	\$ 261,032
Contributions in relation to the contractually required contribution	<u>(256,561)</u>	<u>(269,380)</u>	<u>(269,508)</u>	<u>(341,123)</u>	<u>(261,032)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered-employee payroll	\$ 1,946,593	\$ 1,943,579	\$ 1,947,312	\$ 2,536,230	\$ 2,076,627
Contributions as a percentage of covered-employee payroll	13.18%	13.86%	13.84%	13.45%	12.57%

<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
\$ 346,598	\$ 210,247	\$ 180,304	\$ 213,013	\$ 185,310
<u>(346,598)</u>	<u>(210,247)</u>	<u>(180,304)</u>	<u>(213,013)</u>	<u>(185,310)</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 2,559,808	\$ 2,136,657	\$ 1,836,090	\$ 1,994,504	\$ 1,751,512
13.54%	9.84%	9.82%	10.68%	10.58%

**NORTHWESTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY, OHIO**

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF DISTRICT CONTRIBUTIONS
STATE TEACHERS RETIREMENT SYSTEM (STRS) OF OHIO

LAST TEN FISCAL YEARS

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
Contractually required contribution	\$ 946,535	\$ 869,408	\$ 871,235	\$ 917,548	\$ 882,244
Contributions in relation to the contractually required contribution	<u>(946,535)</u>	<u>(869,408)</u>	<u>(871,235)</u>	<u>(917,548)</u>	<u>(882,244)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered-employee payroll	\$ 6,760,964	\$ 6,687,754	\$ 6,701,808	\$ 7,058,062	\$ 6,786,492
Contributions as a percentage of covered-employee payroll	14.00%	13.00%	13.00%	13.00%	13.00%

<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
\$ 919,652	\$ 893,140	\$ 886,903	\$ 872,330	\$ 882,800
<u>(919,652)</u>	<u>(893,140)</u>	<u>(886,903)</u>	<u>(872,330)</u>	<u>(882,800)</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 7,074,246	\$ 6,870,308	\$ 6,822,331	\$ 6,710,231	\$ 6,790,769
13.00%	13.00%	13.00%	13.00%	13.00%

**NORTHWESTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY, OHIO**

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS) OF OHIO

Information about factors that significantly affect trends in the amounts reported in the schedules should be presented as notes to the schedule.

Changes in benefit terms : There were no changes in benefit terms from the amounts reported for fiscal year 2014 and 2015.

Changes in assumptions : There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal year 2014 and 2015. See the notes to the basic financial statements for the methods and assumptions in this calculation.

STATE TEACHERS RETIREMENT SYSTEM (STRS) OF OHIO

Changes in benefit terms : There were no changes in benefit terms from the amounts reported for fiscal year 2014 and 2015.

Changes in assumptions : There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal year 2014 and 2015. See the notes to the basic financial statements for the methods and assumptions in this calculation.

Northwestern Local School District
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2015

<u>Federal Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Grant Year</u>	<u>Award Receipts</u>	<u>Award Disbursements</u>
<u>U.S. DEPARTMENT OF AGRICULTURE</u>				
<i>Passed Through Ohio Department of Education</i>				
<i>Child Nutrition Cluster:</i>				
School Breakfast Program	10.553	2015	\$ 42,014	\$ 42,014
National School Lunch Program	10.555	2015	<u>304,038</u>	<u>304,038</u>
Total Child Nutrition Cluster			<u>346,052</u>	<u>346,052</u>
Total U.S. Department of Agriculture			<u>346,052</u>	<u>346,052</u>
<u>U.S. DEPARTMENT OF EDUCATION</u>				
<i>Passed Through Ohio Department of Education</i>				
Title I, Part A Grants to Local Education Agencies	84.010	2015	258,845	258,638
		2014	<u>33,155</u>	<u>38,118</u>
Total Title I, Part A Grants to Local Education Agencies			292,000	296,756
<i>Special Education Cluster:</i>				
Special Education Grants to States	84.027	2015	349,536	349,536
		2014	<u>26,559</u>	<u>9,322</u>
Total Special Education Grants to States			376,095	358,858
Special Education Preschool Grants to States	84.173	2015	<u>10,164</u>	<u>10,164</u>
Total Special Education Cluster			386,259	369,022
Improving Teacher Quality State Grants	84.367	2015	44,886	44,809
		2014	<u>8,030</u>	<u>8,239</u>
Total Improving Teacher Quality State Grants			<u>52,916</u>	<u>53,048</u>
Total U.S. Department of Education			<u>731,175</u>	<u>718,826</u>
TOTAL FEDERAL AWARD EXPENDITURES			<u>\$ 1,077,227</u>	<u>\$ 1,064,878</u>

See accompanying notes to the Schedule of Expenditures of Federal Awards

Northwestern Local School District
Notes to the Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2015

NOTE A – SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Expenditures of Federal Awards summarizes the activity of the School District's federal award programs. The Schedule has been prepared on the cash basis of accounting.

NOTE B – U.S. DEPARTMENT OF AGRICULTURE PROGRAMS

Cash receipts from the U.S. Department of Agriculture are commingled with State and Local funds. It is assumed federal monies are expended first.

NOTE C – MATCHING REQUIREMENTS

Certain federal programs require the School District to contribute non-federal funds (matching funds) to support federally-funded programs. The District has complied with the matching requirements. The expenditure of non-federal (matching) funds is not included on the Schedule of Expenditures of Federal Awards.

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

Board of Education
Northwestern Local School District
5610 Troy Road
Springfield, Ohio 45502

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Northwestern Local School District (the District), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 31, 2015, wherein we noted the District adopted the provisions of GASB Statements No. 68 and 71 for the year ended June 30, 2015.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify and deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2015-001 that we consider to be a significant deficiency.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

District Response to Finding

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

Purpose of this Report

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

Clark, Schaefer, Hackett & Co.

Springfield, Ohio
December 31, 2015

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH
MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

Board of Education
Northwestern Local School District
5610 Troy Road
Springfield, Ohio 45502

Report on Compliance for Each Major Federal Program

We have audited the Northwestern Local School District's (the District) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2015. The District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on 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 that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the District's compliance.

Opinion on Each Major Federal Program

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2015.

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Report on Internal Control Over Compliance

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion 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, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. 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 type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program 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. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Clark, Schaefer, Hackett & Co.

Springfield, Ohio
December 31, 2015

Section I – Summary of Auditors’ Results

Financial Statements

Type of auditors’ report issued:	Unmodified
Internal control over financial reporting:	
• Material weakness(es) identified?	None noted
• Significant deficiency(ies) identified not considered to be material weakness(es)?	Yes
Noncompliance material to financial statements noted?	None noted

Federal Awards

Internal control over major programs:	
• Material weakness(es) identified?	None noted
• Significant deficiency(ies) identified not considered to be material weakness(es)?	None noted

Type of auditors’ report issued on compliance for major programs:	Unmodified
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Any audit findings that are required to be reported in accordance with 510(a) of Circular A-133?	None noted
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Identification of major programs:

Child Nutrition Cluster:
 School Breakfast Program – CFDA 10.553
 National School Lunch Program – CFDA 10.555

Special Education Cluster:
 Preschool Grants to States – CFDA 84.173
 Special Education Grants to States – CFDA 84.027

Dollar threshold to distinguish between Type A and Type B programs:	\$300,000
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Auditee qualified as low-risk auditee?	Yes
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Section II – Financial Statement Findings

2015-001: Audit Adjustment

Condition: An audit adjustment was necessary to properly account for property tax advances received by the District during June 2015 but not properly reported.

Criteria: Management is responsible for the preparation and fair presentation of the financial statements which are free from misstatements, whether due to fraud or error.

Effect: Presenting incomplete and inaccurate financial statements, amounts and disclosures increases the risk that individuals relying upon those financial statements could reach inappropriate decisions.

Cause: The County issued several advances of property taxes during June 2015 which the District reported as a reconciling item on the cash reconciliation at June 2015 and were not posted to the ledger as receipts until July 2015. During the GAAP conversion process, only a portion of the advanced amounts were posted to cash and property tax revenue instead of the full amount advanced.

Recommendation: The District should account for the property tax advance when the funds are received or ensure the full amount of the advances is properly accounted for within the GAAP conversion process.

District's Response: The District agrees with adjustment presented and posted the audit adjustment to the current year's financial statements.

Section III – Federal Awards Findings and Questioned Costs

None noted

Section IV – Summary of Prior Audit Findings and Questioned Costs

Finding 2014-001: Audit adjustments were necessary to correct the value of the District's capital assets reported in the District's Statement of Net Position.

Status: Specific issue corrected – audit adjustments for different issue reported in 2015-001.



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Dave Yost • Auditor of State

NORTHWESTERN LOCAL SCHOOL DISTRICT

CLARK COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MARCH 17, 2016**