Northwestern Local School District
Wayne County, Ohio

Audited Financial Statements

For the Fiscal Year Ended
June 30, 2016

Dave Yost • Auditor of State

Board of Education
Northwestern Local School District
7571 North Elyria Road
West Salem, Ohio 44287

We have reviewed the *Independent Auditor's Report* of the Northwestern Local School District, Wayne County, prepared by Rea & Associates, Inc., for the audit period July 1, 2015 through June 30, 2016. 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.

Dave Yost
Auditor of State

December 5, 2016

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Wayne County, Ohio
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August 19, 2016

To Board of Education and Management
Northwestern Local School District
Wayne County, Ohio
7571 N. Elyria Road
West Salem, OH 44287

Independent Auditor's Report

Report on the Financial Statements

We have audited the accompanying financial statements of Northwestern Local School District, Wayne County, Ohio (the District) as of and for the year ended June 30, 2016, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with the accounting principles generally accepted in the United States of America. This responsibility includes the designing, implementing and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Basis for Adverse Opinion

As described in Note 1 of the financial statements, the District prepared these financial statements using the accounting basis Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit. However, Ohio Administrative Code Section 117-2-03(B) requires these statements to follow accounting principles generally accepted in the United States of America. The effects on the financial statements of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumably material.

Adverse Opinion

In our opinion, because of the matter described in the *Basis for Adverse Opinion* paragraph, the financial statements do not present fairly the financial position, results of operations, and cash flows, where applicable, of the Northwestern Local School District as of and for the year ended June 30, 2016 in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Supplementary Information

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

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

Because of the significance of the matter described in the *Basis for Adverse Opinion* paragraph, it is inappropriate to express and we do not express an opinion on the supplementary information referred to above.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 19, 2016, on our consideration of the District’s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District’s internal control over financial reporting and compliance.

Rea & Associates, Inc.

New Philadelphia, Ohio

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Northwestern Local School District
Wayne County, Ohio
Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances
All Governmental Fund Types
For the Fiscal Year Ended June 30, 2016

	Governmental Fund Types				Total
	General	**Special Revenue**	**Debt Service**	**Capital Projects**	**(Memorandum Only)**
CASH RECEIPTS:					
Taxes	$ 4,839,212	$ 46,660	$ 729,980	$ 196,654	$ 5,812,506
Intergovernmental	7,529,968	689,730	119,557	31,710	8,370,965
Investment Income	7,192	409	4,914	456	12,971
Tuition and Fees	1,386,896	0	0	0	1,386,896
Extracurricular Activities	155,559	189,937	0	0	345,496
Charges for Services	8,273	0	0	0	8,273
Gifts and Contributions	15,380	12,310	0	0	27,690
Miscellaneous	24,602	3,655	0	0	28,257
Total Cash Receipts	13,967,082	942,701	854,451	228,820	15,993,054
CASH DISBURSEMENTS:					
Instruction:					
Regular	6,423,353	32,237	0	0	6,455,590
Special	1,206,353	549,912	0	0	1,756,265
Vocational	556,113	0	0	0	556,113
Student Intervention Services	41,064	0	0	0	41,064
Other	343,851	0	0	0	343,851
Support Services:					
Pupils	652,512	0	0	0	652,512
Instructional Staff	725,599	5,400	0	0	730,999
Board of Education	113,667	0	0	0	113,667
Administration	1,025,526	0	0	0	1,025,526
Fiscal	283,156	589	8,766	2,512	295,023
Operation and Maintenance of Plant	1,447,680	42,702	0	0	1,490,382
Pupil Transportation	836,628	0	0	0	836,628
Central	17,049	0	0	0	17,049
Extracurricular Activities	265,648	188,448	0	0	454,096
Capital Outlay	0	0	0	173,126	173,126
Debt Service:					
Principal Retirement	90,237	0	685,000	85,376	860,613
Interest and Fiscal Charges	645	0	118,591	4,624	123,860
Total Cash Disbursements	14,029,081	819,288	812,357	265,638	15,926,364
Excess of Cash Receipts Over/(Under) Cash Disbursements	(61,999)	123,413	42,094	(36,818)	66,690
OTHER FINANCING RECEIPTS (DISBURSEMENTS):					
Advances In	72,976	14,530	0	0	87,506
Advances Out	(14,530)	(72,976)	0	0	(87,506)
Transfers In	7,570	0	0	0	7,570
Transfers Out	(346)	(7,570)	0	0	(7,916)
Total Other Financing Receipts (Disbursements)	65,670	(66,016)	0	0	(346)
Net Change in Fund Cash Balances	3,671	57,397	42,094	(36,818)	66,344
Fund Cash Balances, July 1, 2015	2,699,407	176,105	1,784,670	236,907	4,897,089
Fund Cash Balances, June 30, 2016:					
Restricted	0	233,792	1,826,764	200,089	2,260,645
Committed	78	0	0	0	78
Assigned	438,587	0	0	0	438,587
Unassigned	2,264,413	(290)	0	0	2,264,123
Total Fund Cash Balances, June 30, 2016	$ 2,703,078	$ 233,502	$ 1,826,764	$ 200,089	$ 4,963,433

See accompanying notes to the basic financial statements.

Northwestern Local School District
Wayne County, Ohio
Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances
All Proprietary and Fiduciary Fund Types
For the Fiscal Year Ended June 30, 2016

	Proprietary Fund Types		Fiduciary Fund Type		Total
	Enterprise	Internal Service	Private Purpose Trust	Agency	(Memorandum Only)
OPERATING CASH RECEIPTS:					
Food Services	$ 270,815	$ 0	$ 0	$ 0	$ 270,815
Charges for Services	0	127,925	0	0	127,925
Gifts and Contributions	0	0	500	0	500
Investment Income	0	0	365	118	483
Other Operating Receipts	0	0	1,409	91,656	93,065
Total Operating Cash Receipts	270,815	127,925	2,274	91,774	492,788
OPERATING CASH DISBURSEMENTS:					
Salaries	198,830	0	0	0	198,830
Fringe Benefits	161,185	0	0	0	161,185
Purchased Services	16,514	140,471	0	0	156,985
Materials and Supplies	191,815	0	0	0	191,815
Capital Outlay	4,445	0	0	0	4,445
Other Operating Disbursements	0	0	1,900	91,019	92,919
Total Operating Cash Disbursements	572,789	140,471	1,900	91,019	806,179
Operating Income (Loss)	(301,974)	(12,546)	374	755	(313,391)
NON-OPERATING CASH RECEIPTS (DISBURSEMENTS)					
Federal and State Subsidies	304,291	0	0	0	304,291
Interest	63	60	0	0	123
Total Non-Operating Cash Receipts (Disbursements)	304,354	60	0	0	304,414
Income (Loss) Before Transfers	2,380	(12,486)	374	755	(8,977)
Transfers In	0	0	0	346	346
Net Change in Fund Cash Balances	2,380	(12,486)	374	1,101	(8,631)
Fund Cash Balances, July 1, 2015	54,274	34,847	136,736	59,923	285,780
Fund Cash Balances, June 30, 2016	$ 56,654	$ 22,361	$ 137,110	$ 61,024	$ 277,149

See accompanying notes to the basic financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

The Northwestern Local School District, Wayne County, Ohio, (the District) is a body corporate and politic established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The District is a local school district as defined by Section 3311.03 of the Ohio Revised Code. The District operates under an elected Board of Education, consisting of five members and is responsible for providing public education to residents of the District.

The District provides regular, vocational, special instruction and student intervention services. The District also provides support services for the pupils, instructional staff, administration, fiscal services, facilities acquisition and construction services, operation and maintenance of plant, pupil transportation, food services, extracurricular activities and non-programmed services.

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

B. Basis of Accounting

Although required by Ohio Administrative Code 117-2-03(B) to prepare its financial report in accordance with accounting principles generally accepted in the United States of America, the District has chosen to prepare its financial statements on a basis of accounting not in accordance with generally accepted accounting principles. The basis of accounting is similar to the cash receipts and cash disbursements basis of accounting. Receipts are recognized when received rather than when they are earned, and disbursements are recognized when paid rather than when the liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e. when an encumbrance is approved).

C. Cash

Investments are reported as assets. Accordingly, purchases of investments are not recorded as disbursements and sales of investments are not recorded as receipts. Gains or losses at the time of sale are recorded as receipts or disbursements, respectively.

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

The District also invests in STAR Plus, a federally insured cash account powered by the Federally Insured Cash Account (FICA) program. STAR Plus enables political subdivisions to generate a competitive yield on cash deposits in a network of carefully-selected FDIC-insured banks via a single, convenient account. STAR Plus offers attractive yields with no market or credit risk, weekly liquidity and penalty free withdrawals. All deposits with STAR Plus have full FDIC insurance, with no term commitment on deposits.

D. Fund Accounting

The District maintains its accounting records in accordance with the principles of "fund" accounting. Fund accounting is a concept developed to meet the needs of governmental entities in which legal or other restraints require the recording of specific receipts and disbursements. The transactions of each fund are reflected in a self-balancing group of accounts, an accounting entity, which stands separate from the activities reported in other funds. The restrictions associated with each class of funds are as follows:

Governmental Funds

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

Special Revenue - Special Revenue funds are used to account for the proceeds of special revenue sources, other than expendable trusts or major capital projects that are legally restricted to expenditure for specified purposes. The most significant Special Revenue funds are:

Title VI-B Fund -This fund ensures that all children with disabilities have available to them a free appropriate public education which emphasizes special education and related services designed to meet their unique needs.

Athletic Fund -This fund accounts for gate receipts and other revenue from athletic events and all costs (except supplemental coaching contracts) of the District's athletic program and transportation to and from athletic events.

Maintenance Fund - This fund accounts for the maintenance and repair of school buildings and other school properties.

Title-I Fund – This fund provides educational services to meet the special needs of educationally deprived children. Included are the Even Start and Comprehensive School Reform Programs.

Debt Service - The Debt Service fund is used to account for the accumulation of resources for the payment of general long-term obligation principal, interest, and related costs.

Bond Retirement Fund -This fund retires the general obligation debt of the District.

Capital Projects - Capital Projects funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities other than those financed by proprietary funds. The only Capital Project fund in the District is the:

Permanent Improvement Fund - This fund expends funds for continuous capital improvements within the District.

Proprietary Funds

Enterprise Funds - Enterprise Funds are used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs, of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or where the governing body has decided that periodic determination of revenues, expenses, and net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. The only Enterprise fund in the District is the:

Food Service Fund - This fund assists the District in administering financial transactions related to food service operations.

Internal Service Fund - The Internal Service Fund is used to account for the financing of goods or services provided by one department or agency to other governmental units, on a cost-reimbursement basis. The only Internal Service fund is the:

Dental Insurance Fund - This fund accounts for monies to pay claims for employee dental plans.

Fiduciary Funds

Private Purpose Trust Funds - These funds are used to account for contributions, which are limited to benefiting individuals, other organizations, or other governments. The most significant Private Purpose Trust fund in the District is the:

Leo Welty Scholarship Fund - This fund accounts for scholarships to graduating seniors for education advancement.

Agency Funds – These funds are used to account for assets held by the District, as an agent for individuals, private organizations or other governmental units and/or other funds. The only Agency funds of the District are the:

Student Activities Fund - This fund accounts for student activity programs which have student participation in the activity and have students involved in the management of the program.

Ohio High School Athletic Association (OHSAA) – This fund accounts for the OHSAA tournament monies received or distributed by the District.

E. Budgetary Basis

Tax Budget

A budget of estimated cash receipts and disbursements is submitted to the Wayne County Auditor, as secretary of the County Budget Commission, by January 20 of each year, for the period July 1 to June 30 of the following year.

Appropriations

An appropriation measure is adopted by the District on or before the first day of July in each year for the period July 1 to June 30 of the following year. The appropriation measure is submitted to the County Auditor, who in turn, submits it to the County Budget Commission. The appropriation measure controls expenditures of the District. The District may, by resolution, transfer funds from one line item to another in the appropriation measure, reduce or increase any item, create new items, and make additional appropriations, subject to availability of funds and to the approval of the County Budget Commission. The District's legal level of control is set at the fund level. The budget figures in Note 3 represent the final appropriation amounts including all amendments and modifications.

Estimated Resources

The County Budget Commission determines if the budget substantiates a need to levy all or part of previously authorized taxes and reviews estimated revenue. The Commission certifies its actions to the District by March 1. As part of the certification, the District receives the official certificate of estimated resources, which states the projected revenue of each fund. Prior to June 30, the District must revise its budget so that the total contemplated expenditures from any fund during the ensuing fiscal year will not exceed the amount available as stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriation measure. On or about July 1, the certificate of estimated resources is amended to include any unencumbered balances from the preceding year. The certificate may be further amended during the year if a new source of revenue is identified or actual receipts exceed current estimates.

Encumbrances

The District is required to use the encumbrance method of accounting by virtue of Ohio law. Under this system, purchase orders, contracts and other commitments for the expenditure of funds are recorded in order to reserve the portion of the applicable appropriation.

At the close of each year, the unencumbered balance of each appropriation reverts to the respective funds from which it was appropriated and becomes subject to future appropriations. The encumbered appropriation balance is carried forward to the succeeding fiscal year and need not be reappropriated.

A summary of 2016 budgetary activity appears in Note 3.

F. Property, Plant and Equipment

Acquisitions of property, plant and equipment are recorded as disbursements when paid. These items are not reflected as assets on the accompanying financial statements.

G. Accumulated Leave

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

H. Pensions

For purposes of measuring the net pension liability, information about the fiduciary net position of the pension plans and additions to/deductions from their fiduciary net positon 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.

I. Total Columns on Financial Statements

Total columns on the financial statements are captioned "Memorandum Only" because they do not represent consolidated financial information and are presented only to facilitate financial analysis. The columns do not present information that reflects the financial position, results of operations or cash flows in accordance with generally accepted accounting principles. Interfund eliminations have not been made in the aggregation of this data.

J. Fund Balance

In accordance with Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions,* the District classifies its fund balance based on the purpose for which the resources were received and the level of constraint placed on the resources. The classifications are as follows:

Nonspendable – The nonspendable fund balance category includes amounts that cannot be spent because they are not in spendable form, or legally or contractually 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 property acquired for resale unless the use of the proceeds from the sale of those properties is restricted, committed or assigned.

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

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. Those committed amounts cannot be used for any other purpose unless the District 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 or 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. The Board of Education has by resolution authorized the Treasurer to assign fund balance. The Board of Education may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget.

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 used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed or assigned.

The District applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned and unassigned) amounts are 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.

K. Implementation of New Accounting Principles

For the fiscal year ended June 30, 2016, the District has (to the extent it applies to the cash basis of accounting) implemented Governmental Accounting Standards Board (GASB) Statement No. 72, *Fair Value Measurement and Application*, GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68,* GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments* and GASB Statement No. 79, *Certain External Investment Pools and Pool Participants.*

GASB Statement No. 72 clarifies the definition of fair value for financial reporting purposes, establishes general principles for measuring fair value, provides additional fair value application guidance, and enhances disclosures about fair value measurements. The implementation of GASB Statement No. 72 did not have an effect on the financial statements of the District.

GASB Statement No. 73 establishes requirements for defined benefit pensions that are not within the scope of GASB Statement No. 68 as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of Statement 68. It also clarifies the application of certain provisions of GASB Statements 67 and 68. The implementation of GASB Statement No. 73 did not have an effect on the financial statements of the District.

GASB Statement No. 76 reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. The implementation of GASB Statement No. 76 did not have an effect on the financial statements of the District.

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

2. CASH AND INVESTMENTS

Cash received by the District is pooled in various bank accounts with individual fund balance integrity maintained throughout. Individual fund integrity is maintained through the District's records. During the fiscal year, all investments were limited to certificates of deposit and the State Treasurer's investment pool (STAR Ohio and STAR Plus).

Except for nonparticipating investment contracts, investments are reported at fair value which is based on quoted market prices. Nonparticipating investment contracts such as repurchase agreements and nonnegotiable certificates of deposit are reported at cost.

Under existing Ohio statutes all investment earnings are assigned to the General Fund unless statutorily required to be credited to a specific fund. For the District, all investment earnings are receipts in the General Fund, School Support Fund, Maintenance Fund, Student Activities Fund, Extracurricular Activities Fund, Bond Retirement Fund, Permanent Improvement Fund, Food Service Fund, Dental Insurance Fund, and various trust funds, as authorized by board resolution. Interest income earned in fiscal year 2016 totaled $13,577.

The District maintains a cash and investment pool used by all funds. The Ohio Revised Code prescribes allowable deposits and investments. The carrying amount of cash and investments at June 30 was as follows:

Demand Deposits	$ 3,015,477
Petty Cash	2,403
STAR Ohio	2,211,702
Certificate of Deposit	11,000
Total Deposits and Investments	$ 5,240,582

At fiscal year-end, the carrying amount of the District deposits was $3,026,477. Based on the criteria described in GASB Statement No. 40, *Deposits and Investment Risk Disclosures*, as of June 30, 2016, $781,511 of the District's bank balance of $3,056,637 was exposed to custodial risk as discussed below, while $2,275,126 was covered by Federal Deposit Insurance Corporation (FDIC), which includes $2,014,126 held in a STAR Plus account.

STAR Ohio is an investment pool operated by the Ohio State Treasurer. It is unclassified since it is not evidenced by securities that exist in physical or book entry form. Ohio law requires STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service. The weighted average of maturity of the portfolio held by STAR Ohio as of June 30, 2016, is 49 days and carries a rating of AAAm by Standard and Poor's.

3. BUDGETARY ACTIVITY

Budgetary activity for the year ending June 30, 2016 is as follows:

2016 Budgeted vs Actual Receipts

	Budget Receipts	Actual Receipts	Variance
General	$ 14,771,575	$ 14,047,628	$ (723,947)
Special Revenue	873,397	957,231	83,834
Debt Service	585,159	854,451	269,292
Capital Projects	233,938	228,820	(5,118)
Enterprise	602,343	575,169	(27,174)
Internal Service	122,999	127,985	4,986
Private Purpose Trust	4,943	2,274	(2,669)

2016 Appropriation vs Actual Budgetary Basis Expenditures

	Appropriation Authority	Budgetary Expenditures	Variance
General	$ 13,511,029	$ 14,364,116	$ (853,087)
Special Revenue	877,419	912,931	(35,512)
Debt Service	813,589	812,357	1,232
Capital Projects	199,682	294,175	(94,493)
Enterprise	545,545	572,790	(27,245)
Internal Service	129,742	140,471	(10,729)
Private Purpose Trust	2,625	2,551	74

Some funds are included in the general fund on the combined statement of cash receipts, cash disbursements, and changes in fund cash balances, but have legally adopted budgets.

4. 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 and public utility property located in the District. Real property tax revenue received in calendar year 2016 represents collections of calendar year 2015 taxes. Real property taxes received in calendar year 2016 were levied after April 1, 2015, on the assessed value listed as of January 1, 2015, the lien date. Assessed values for real property taxes are established by State law at 35% of appraised market value. Real property taxes are payable annually or semi-annually. 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 revenue received in calendar 2016 represents collections of calendar year 2015 taxes. Public utility real and tangible personal property taxes received in calendar year 2016 became a lien December 31, 2014, were levied after April 1, 2015 and are collected in 2016 with real property taxes. Public utility real property is assessed at 35% of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

The District receives property taxes from Wayne and Ashland County. The County Auditors periodically advance to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2016, are available to finance fiscal year 2016 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

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

	2015 Second Half Collections		2016 First Half Collections	
	Amount	Percent	Amount	Percent
Real Estate	$ 159,320,520	97.20%	$ 159,066,700	96.98%
Public Utility Personal Property	4,597,710	2.80%	4,953,860	3.02%
	$ 163,918,230	100.00%	$ 164,020,560	100.00%
Full Tax Rate per $1,000 of assessed value	$ 32.30		$ 31.80	

5. DEFINED BENEFIT PENSION PLANS

Net Pension Liability

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

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

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

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

Plan Description - School Employees Retirement System (SERS)

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

Age and service requirements for retirement are as follows:

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

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

Annual retirement benefits are calculated based on final average salary multiplied by a percentage that varies based on year of service; 2.2% for the first thirty years of service and 2.5% 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 3% 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% of their annual covered salary and the District is required to contribute 14% 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% for plan members and 14% for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System's funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2016, the allocation to pension, death benefits, and Medicare B was 14%. SERS did not allocate any employer contributions to the Health Care Fund for fiscal year 2016.

The District's contractually required contribution to SERS was $346,200 for fiscal year 2016.

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.

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 was 2.2% 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 2% of the original base benefit. For members retiring August 1, 2013, or later, the first 2% is paid on the fifth anniversary of the retirement benefit. Members are eligible to retire at age 60 with five year of qualifying service credit, or age 55 with 25 years of service, or 30 years of service regardless of age. Age and service requirements for retirement will increase effective August 1, 2015, and will continue to increase periodically until they reach age 60 with 35 years of service or age 65 with five year of service on August 1, 2026.

The DC Plan allows members to place all their member contributions and 9.5% of the 14% employer contributions into an investment account. Investment allocation decisions are determined by the member. The remaining 4.5% of the 14% 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 1% July 1, 2014, and will be increased 1% each year until it reaches 14% on July 1, 2016. For the fiscal year ended June 30, 2016, plan members were required to contribute 13% of their annual covered salary. The District was required to contribute 14%; the entire 14% was the portion used to fund pension obligations. The fiscal year 2016 contribution rates were equal to the statutory maximum rates.

The District's contractually required contribution to STRS was $890,220 for fiscal year 2016.

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

	STRS	SERS	Total
Proportionate Share of the Net Pension Liability	$ 16,371,874	$ 3,551,709	$ 19,923,583
Proportion of the Net Pension Liability	0.05923881%	0.06224410%	

Actuarial Assumptions - SERS

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

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

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

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

Wage Inflation	3.25%
Future Salary Increases, including inflation	4.00% to 22%
COLA or Ad Hoc COLA	3.00%
Investment Rate of Return	7.75% net of investments expense, including inflation
Actuarial Cost Method	Entry Age Normal

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

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

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

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

Discount Rate The total pension liability was calculated using the discount rate of 7.75%. The projection of cash flows used to determine the discount rate assumed the contributions from employers and from the members would be computed based on contribution requirements as stipulated by State statute. Projected inflows from investment earning were calculated using the long-term assumed investment rate of return (7.75%). 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%, 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%), or one percentage point higher (8.75%) 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	$ 4,924,944	$ 3,551,709	$ 2,395,332

Actuarial Assumptions - STRS

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

Inflation	2.75%
Projected salary increase	2.75% at 70 to 12.25% at age 20
Investment Rate of Return	7.75%, net of investment expenses
Cost-of-Living Adjustments (COLA)	2.00% simple applied as follows: for members retiring before August 1, 2013, 2% per year, for members retiring August 1, 2013, or later, 2% COLA paid on fifth anniversary of retirement date

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

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

The 10 year expected real rate of return on pension plan investments was determined by STRS' 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:

Asset Class	Target Allocation	Long Term Expected Real Rate of Return
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
	100.00 %	

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

Sensitivity of the District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate The following table presents the District's proportionate share of the net pension liability calculated using the current period discount rate assumption of 7.75%, 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%) or one-percentage-point higher (8.75%) 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	$ 22,741,768	$ 16,371,874	$ 10,985,179

6. 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% of covered payroll to the Health Care Fund. For fiscal year 2016, SERS did not allocate any employer contributions to the Health Care fund. In addition, employers pay a surcharge for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. For fiscal year 2016, this amount was $23,000. Statutes provide that no employer shall pay a health care surcharge greater than 2% of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5% of the total statewide SERS-covered payroll for the health care surcharge.

The District's contributions for health care (including surcharge) for the fiscal years ended June 30, 2016, 2015, and 2014 were $31,200, $52,567 and $34,278, respectively. The full amount has been contributed for fiscal years 2016, 2015 and 2014.

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 Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS. 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 2016, STRS did not allocate any employer contributions to post-employment health care.

7. LONG-TERM DEBT OBLIGATIONS

	Outstanding 7/1/2015	Additions	Reductions	Outstanding 6/30/2016
General Obligation Bonds:				
2003 Refunding (1.5% to 5.75%)	$ 1,015,000	$ 0	$ 490,000	$ 525,000
2011 Refunding (1.0% to 3.2%)	1,375,000	0	30,000	1,345,000
Notes:				
Buses	175,613	0	175,613	0
Various Improvement Bonds:				
3% - due July 1, 2018	725,000	0	165,000	560,000
	$ 3,290,613	$ 0	$ 860,613	$ 2,430,000

Outstanding long-term debt obligations consist of school building construction issues and school bus notes. General obligation bonds are direct obligations of the District for which its full faith, credit and resources are pledged and are payable from taxes levied on all taxable property in the District. The bus notes were paid from the General Fund and the Permanent Improvement fund. The general obligation bonds will be paid from the Debt Service Fund.

On July 1, 2001, the District issued $3,633,000 in various improvement bonds. This was partially refunded by the 2011 refunding bonds.

On October 15, 2003, the District issued $2,995,000 refunded general obligation bonds. The proceeds of the bonds were used to refund in advance of their maturity the December 1, 2006 and December 1, 2016 maturities totaling $2,995,000 of the District's general obligation bonds, Series 1994. This refunding was done to achieve interest cost savings. Proceeds of the bonds were used to establish an irrevocable escrow account. Funds in the escrow account were invested in special direct obligations of the United States Treasury or other obligations of the United States government or its agencies. The escrow securities and their earnings are structured to pay the principal and interest on the refunded 1994 bonds as such payments become due, until the call dates of the respective refunded bonds, at which time the escrow pays the principal of the refunded bonds at a price of par plus interest. Since these bonds have been placed in irrevocable trust, they are considered defeased for these financial statements. The advance refunding resulted in a difference between reacquisition price and the net carrying amount of the old debt of $357,935. The economic gain was $254,510.

In September, 2011, the District issued $1,885,000 of general obligation refunding bonds. The proceeds of the bonds were used to partially refund in advance of their maturity the December 1, 2011 through December 2018, December 1, 2021, and December 1, 2024 maturities totaling $1,885,000 of the District's general obligation bonds, 2001. This refunding was done to achieve interest cost savings. Proceeds of the bonds were used to establish an irrevocable escrow account. Funds in the escrow account were invested in special direct obligations of the United States Treasury or other obligations of the United States government or its agencies. The escrow securities and their earnings are structured to pay the principal and interest on the refunded 2001 bonds as such payments become due, until the call dates of the respective refunded bonds, at which time the escrow pays the principal of the refunded bonds at a price of par plus interest. Since these bonds have been placed in irrevocable trust, they are considered defeased for these financial statements. The advance refunding resulted in a difference between reacquisition price and the net carrying amount of the old debt of $246,825. The economic gain was $196,902. These refunding bonds were issued with a premium of $57,564.

In July 2012, the District was issued a promissory note in the amount of $339,848 for the purchase of buses at an interest rate of 2.633%. The promissory note was paid in full November, 2015.

The annual requirement to amortize all debt outstanding as of June 30, 2016 is as follows:

Fiscal Year	2003 Refunding Bonds	2011 Refunding Bond	Various Improvement Bonds	Total
2017	$ 540,094	$ 70,035	$ 276,006	$ 886,135
2018	0	69,248	275,206	344,454
2019	0	68,460	278,656	347,116
2020	0	275,249	0	275,249
2021	0	274,307	0	274,307
2022-2025	0	777,919	0	777,919
Total Principal and Interest	540,094	1,535,218	829,868	2,905,180
Less Interest	(15,094)	(190,218)	(269,868)	(475,180)
Total Principal	$ 525,000	$ 1,345,000	$ 560,000	$ 2,430,000

8. SET ASIDES

The District is required by State statute to annually set aside in the general fund an amount based on a statutory formula for the acquisition and construction of capital improvements. Amounts not spent by year-end or offset by similarly restricted resources received during the year must be held in cash at year-end and carried forward to be used for the same purposes in future years. In prior years, the District was also required to set aside money for budget stabilization. At June 30, 2016, only the unspent portion of certain workers' compensation refunds continues to be set aside.

The following cash basis information describes the change in the fiscal year end set aside amounts for budget stabilization and capital acquisition. Disclosure of this information is required by State statute.

	Budget Stabilization Reserve	Capital Improvement Reserve
Balance, June 30, 2015	$ 173,531	$ 0
Current Year Set-Aside Requirement	0	244,621
Current Year Qualifying Disbursements	0	(685,000)
Total	$ 173,531	$ (440,379)
Balance Carried Forward to Fiscal Year 2017	$ 173,531	$ 0
Set-Aside Balance June 30, 2016	$ 173,531	$ 0

Although the District had current year qualifying disbursements during the fiscal year that could reduce the set aside amount to below zero for the capital acquisition set-aside, this amount may not be used to reduce the set-aside requirements of future years.

9. INTERNAL ACTIVITY

A. Interfund Advances

Interfund advances consisted of the following at June 30, 2016:

	Advances In	Advances Out
General Fund	$ 72,976	$ 14,530
Special Revenue Funds:		
District Managed Student Activities	14,530	34,414
IDEA, Part B	0	11,034
Title I - Disadvantaged Children	0	20,095
Improving Teacher Quality	0	7,433
	$ 87,506	$ 87,506

The primary purpose of the interfund balances is to cover costs in specific funds where revenues were not received by June 30. The interfund advances during fiscal year 2016 were to repay a portion of the prior fiscal year outstanding balance.

B. Interfund Transfers

Transfers made during fiscal year 2016 were as follows:

	Transfers In	Transfers Out
General Fund	$ 7,570	$ 346
Special Revenue Fund:		
Other Grants	0	7,570
Agency Fund:		
Student Managed Activities	346	0
	$ 7,916	$ 7,916

These transfers were made to move unrestricted balances to support programs and projects accounted for in other funds. The transfer into general fund is moving residual balance of a special revenue fund where the purpose of the fund no longer exists.

10. JOINTLY GOVERNED ORGANIZATION

Tri-County Computer Services Association (TCCSA)

The Tri-County Computer Services Association (TCCSA) is a jointly governed organization comprised of 25 school districts. The jointly governed organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions for member districts. Each of the governments of these districts supports TCCSA based on per pupil charge dependent upon the software package utilized. The TCCSA assembly consists of a superintendent or designated representative from each participating district and a representative from the fiscal agent. TCCSA is governed by a board of directors chosen from the general membership of the TCCSA assembly. The board of directors consists of a representative from the fiscal agent, the chairman of each operating committee, and at least an assembly member from each county from which participating districts are located. Financial information can be obtained by contacting the Treasurer at the Tri-County Educational Service Center, which is the fiscal agent, located at 741 Winkler Drive, Wooster, OH 44691. During the year ended June 30, 2016, the District paid $115,322 to TCCSA for basic service charges.

11. RISK MANAGEMENT

A. Property and Liability

The District is exposed to various risks of loss related torts, theft of, damage to, and destruction of assets, errors, omissions, injuries to employees, and natural disasters. The District has a comprehensive property and casualty policy with the Indiana Insurance Company. The deductible is $1,000 per incident on property and $1,000 per incident on equipment. All vehicles are also insured with the Indiana Insurance Company and have a $1,000 deductible. All board members, administrators and employees are covered under a school district liability policy with Indiana Insurance Company. The limits of coverage are $1,000,000 per occurrence and $2,000,000 per aggregate. Settled claims have not exceeded this commercial coverage in any of the past three years. There has not been a significant reduction in coverage from the prior year. The board president, superintendent, athletic director and food service director, each have a $20,000 position bond with Travelers Casualty Insurance Company.

The Treasurer is covered under a surety bond in the amount of $50,000. The bond is provided by the Travelers Casualty Insurance Company.

B. Workers Compensation

The District pays the State Workers' Compensation System a premium based on a rate per $100 of salaries. The District is a member of the Ohio School Board Association Group Rating System. The rate is calculated based on accident history and administrative costs. The group presently consists of over 400 school districts.

C. Dental Insurance

The District operates and manages employee dental benefit on a self-insured basis. The District pays monthly contributions that are placed in a common fund from which eligible claims are paid for employees and their dependents.

12. PUBLIC ENTITY RISK POOL

The Wayne County Schools Council for Health Care Benefit Program is a shared risk pool created pursuant to state statute for the purpose of administering health care benefits. The Council is governed by an assembly which consists of one representative from each participating school district (usually superintendent, treasurer or executive member of governing body). The Council elects officers to serve on the Board of Directors. The assembly exercises control over the operation of the Council. Council revenues are generated from charges for services from participating school districts, based on the established premiums for the insurance plans. Each school district reserves the right to terminate the plan in whole or in part, at any time. If it is terminated, no further contributions will be made, but the benefits under the insurance contract shall be paid in accordance with terms of the contract.

13. CONTINGENCIES

A. Grants

The District received financial assistance from federal and State agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, the effect of any such disallowed claims on the overall financial position of the District at June 30, 2016, if applicable, cannot be determined at this time.

B. Litigation

The District is not party to any claims or lawsuits that would, in the District's opinion, have a material effect of the financial statements.

C. School District Funding

School District Foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. Effective for the 2014-2015 school year, traditional school districts must comply with minimum hours of instruction, instead of a minimum number of school days each year. The funding formula the Ohio Department of Education (ODE) is legislatively required to follow will continue to adjust as enrollment information is updated by the school districts, 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 or June 30, 2016 Foundation funding for the School 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 School District.

14. FUND BALANCE

Fund balance can be classified as nonspendable, restricted, committed, assigned and/or unassigned based primarily on the extent to which the District is bound to observe constraints imposed upon the use of the resources in governmental funds.

The constraints placed on fund cash balance for the major governmental fund types are presented as follows:

	General Fund	Special Revenue Funds	Debt Service Funds	Capital Project Funds	Total
Restricted for:					
Capital Projects	$ 0	$ 0	$ 0	$ 200,089	$ 200,089
Debt Service	0	0	1,826,764	0	1,826,764
Maintenance Fund	0	113,683	0	0	113,683
Student Activities	0	73,112	0	0	73,112
Other Purposes	0	46,997	0	0	46,997
Total Restricted	0	233,792	1,826,764	200,089	2,260,645
Committed to:					
Other Purposes	78	0	0	0	78
Assigned for:					
Encumbrances:					
Instructional	132,672	0	0	0	132,672
Support Services	189,754	0	0	0	189,754
Extracurricular Activities	400	0	0	0	400
Other Purposes	115,761	0	0	0	115,761
Total Assigned	438,587	0	0	0	438,587
Unassigned	2,264,413	(290)	0	0	2,264,123
Total Fund Cash Balance	$ 2,703,078	$ 233,502	$ 1,826,764	$ 200,089	$ 4,963,433

The Improving Teacher Quality fund had a deficit fund balance of $290 at June 30, 2016. The general fund is liable for any deficit in this fund and provides transfers when cash is required.

15. COMPLIANCE

The District did not prepare its financial report in accordance with generally accepted accounting principles, contrary to Ohio Admin. Code 117-2-03. For the year ended June 30, 2016 the District had expenditures in excess of appropriations in the following funds:

Fund	Excess
General	$853,087
Other Grants	696
Classroom Facilities Maintenance	20,041
Management Information Systems	25,154
IDEA, Part B	7,316
Vocational Education	650
Title I – Disadvantaged Children	2,239
Improving Teacher Quality	3,270
Internal Service Fund	10,729
Permanent Improvement	94,493
Food Service	27,245

The District will monitor future budgets and make necessary changes.

16. COMMITMENTS

Encumbrances

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 fiscal year end, the District's commitments for encumbrances in the governmental funds were as follows:

Fund	Amount
General	$ 327,977
Special Revenue	10,333
Capital Projects	28,537
	$ 366,847

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August 19, 2016

To Board of Education and Management
Northwestern Local School District
Wayne County, Ohio
7571 N. Elyria Road
West Salem, OH 44287

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

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the Northwestern Local School District, Wayne County, Ohio, (the District) as of and for the year ended June 30, 2016, and the related notes to the financial statements and have issued our report thereon dated August 19, 2016, wherein we issued an adverse opinion on the District's accompanying financial statements because they do not present fairly the financial position, results of operations and cash flows, where applicable, in accordance with accounting principles generally accepted in the United States of America.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings and questioned costs as items 2016-001 and 2016-002.

District's Response to Findings

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

Purpose of this Report

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

Rea & Associates, Inc.

New Philadelphia, Ohio

August 19, 2016

To Board of Education and Management
Northwestern Local School District
Wayne County, Ohio
7571 N. Elyria Road
West Salem, OH 44287

Independent Auditor's Report on Compliance for Each Major Federal Program and on Internal Control over Compliance Required by the Uniform Guidance

Report on Compliance for Each Major Federal Program

We have audited the Northwestern Local School District's, Wayne County, Ohio (the District) compliance with the applicable requirements described in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could directly and materially affect each of the District's major federal programs for the year ended June 30, 2016. The *Summary of Auditor's Results* in the accompanying schedule of findings and questioned costs identifies the District's major federal programs**.**

Management's Responsibility

The District's Management is responsible for complying with the federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to opine on the District's compliance for each of the District's major federal programs based on our audit of the applicable compliance requirements referred to above. Our compliance audit followed auditing standards generally accepted in the United States of America; the standards for financial audits included in the Comptroller General of the United States' *Government Auditing Standards*; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). These standards and the Uniform Guidance require us to plan and perform the audit to reasonably assure whether noncompliance with the applicable compliance requirements referred to above that could directly and materially affect a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, the Northwestern Local School District, Wayne County, Ohio complied, in all material respects with the compliance requirements referred to above that could directly and materially affect each of its major federal programs for the year ended June 30, 2016.

Report on Internal Control over Compliance

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily 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.

This report only describes the scope of our internal control compliance tests and the results of this testing based on Uniform Guidance requirements. Accordingly, this report is not suitable for any other purpose.

Rea & Associates, Inc.

New Philadelphia, Ohio

Northwestern Local School District
Wayne County, Ohio
Schedule of Expenditures of Federal Awards
For The Fiscal Year Ended June 30, 2016

Federal Grantor/Pass Through Grantor Program Title	Grant Year	CFDA Number	Federal Expenditures	Passed Through to Subrecipients
U.S. Department of Education				
Passed Through Ohio Department of Education:				
Title I Grants to Local Educational Agencies	2016	84.010	$ 266,621	$ 0
Special Education - Grants to States	2016	84.027	240,031	0
Career and Technical Education -- Basic Grants to States	2016	84.186	10,000	0
Title II-A - Improving Teacher Quality	2016	84.367	43,261	0
Total U.S. Department of Education			**559,913**	**0**
U.S. Department of Agriculture				
Passed Through Ohio Department of Education:				
Child Nutrition Cluster:				
Non-Cash Assistance (Food Distribution):				
National School Lunch Program (D)	2016	10.555	3,000	0
Cash Assistance:				
School Breakfast Program (C)	2016	10.553	56,422	0
National School Lunch Program (C)	2016	10.555	242,406	0
Cash Assistance Subtotal			298,828	0
Total Child Nutrition Cluster			301,828	0
Total U.S. Department of Agriculture			**301,828**	**0**
TOTAL FEDERAL ASSISTANCE			**$ 861,741**	**$ 0**

NOTE A – BASIS OF PRESENTATION

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

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

NOTE C - CHILD NUTRITION CLUSTER

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

NOTE D – FOOD DONATION PROGRAM

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

Northwestern Local School District
Wayne County, Ohio
Schedule of Findings and Questioned Costs
2 CFR Section 200.515
June 30, 2016

1. SUMMARY OF AUDITOR'S RESULTS

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

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

Finding Number: 2016-001 **- Material Non-Compliance**

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

Ohio Admin. Code Section 117-2-03(B) requires the District to prepare its annual financial report in accordance with generally accepted accounting principles. GASB Statement 34, "Basic Financial Statements – and Management's Discussion and Analysis – For State and Local Governments" requires the School District's basic financial statements and required supplementary information (RSI) consist of the following:

- Management's Discussion and Analysis – Providing management's analytical overview of the School District's financial activities.
- Basic Financial Statements – The basic financial statements will consist of Government-wide financial statements, which will include a statement of net assets and a statement of activities, prepared on the economic resources measurement focus and the accrual basis of accounting. These statements will report all assets, liabilities, revenues, expenses, and gains and losses of the School District. The basic financial statements also will consist of the more familiar fund financial statements, but they will focus on the School District's "Major" funds as defined in the Statement.
- Required Supplementary Information – Budgetary comparison schedules, certain "modified approach" infrastructure information, Schedule of Proportionate Share of the Net Pension Liability, and Schedule of Contributions.

Condition: The District did not prepare its financial statements in accordance with Ohio Rev. Code Section 117.38 and Ohio Admin. Code Section 117-2-03(B).

Cause: For fiscal year 2016, the District prepared its financial statements in accordance with standards established by the Auditor of State for governmental entities not required to prepare annual reports in accordance with generally accepted accounting principles. The accompanying financial statements and notes omit assets, liabilities, fund equities, and disclosures that, while material, cannot be determined at this time.

Effect: Pursuant to Ohio Rev. Code Section 117.38, the District may be fined and subject to various other administrative remedies for its failure to file the required financial report.

Recommendation: We recommend the District review the new standards and ensure preparation of its financial statements in accordance with AICPA's *Audit and Accounting Guide Audits of State and Local Governments*. We also recommend the District prepare its financial statements in accordance with Ohio Administrative Code and Ohio Revised Code.

Management's Response: The District does not intend to report in accordance with generally accepted accounting principles (GAAP). Management believes the cost savings far outweighs reporting on GAAP.

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

Finding Number: 2016-002 **- Material Non-Compliance – Budgeting Procedures**

Criteria: Ohio Rev. Code sections 5705.41(B) and 5705.41(D) prohibit a subdivision or taxing unit from expending money unless it has been appropriated.

Condition: During the performance of audit procedures, we noted expenditures plus encumbrances exceeding appropriations in the following funds:

	Actual Expenditures	Final Appropriations	Excess
General	$ 14,364,116	$ 13,511,029	$ 853,087
Other Grants	10,232	9,536	696
Permanent Improvement	294,175	199,682	94,493
Food Service	572,790	545,545	27,245
Internal Service	140,471	129,742	10,729
Classroom Facilities Maintenance	46,811	26,770	20,041
Management Information Systems	40,554	15,400	25,154
IDEA, Part B	240,109	232,793	7,316
Vocational Education	10,650	10,000	650
Title I – Disadvantaged Children	267,903	265,664	2,239
Improving Teacher Quality	44,691	41,421	3,270

Cause: The District did not properly update appropriations at the end of the fiscal year.

Effect: Failure to monitor budgetary expenditures and appropriations could result in unauthorized expenditures.

Recommendation: We recommend the District compare expenditures and encumbrances to appropriations in all funds which are legally required to be budgeted, at the legal level of control, prior to making expenditure commitments, and make all necessary adjustments to the amounts appropriated to ensure compliance with the above requirements. This comparison, and amendment if necessary, should be completed on a monthly basis at a minimum.

Management's Response: The Treasurer's Office will monitor budgets monthly and make necessary amendments.

3. FINDINGS FOR FEDERAL AWARDS

None

Northwestern Local School District
Wayne County, Ohio
Schedule of Prior Audit Findings
June 30, 2016

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:
2015-001	**Ohio Admin. Code Section 117-2-03(B),** Prepare Annual Financial Report in Accordance with Generally Accepted Accounting Principles	No	Repeated as Finding 2016-001
2015-002	**Material Noncompliance –** Budgeting Procedures	No	Repeated as Finding 2016-002

NORTHWESTERN LOCAL SCHOOL DISTRICT

WAYNE COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
DECEMBER 15, 2016

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