



Dave Yost • Auditor of State

**SOUTHWEST LOCAL SCHOOL DISTRICT
HAMILTON COUNTY**

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**SOUTHWEST LOCAL SCHOOL DISTRICT
HAMILTON COUNTY**

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

Southwest Local School District
Hamilton County
230 Elm Street
Harrison, Ohio 45030

To the Board of Education:

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Southwest Local School District, Hamilton County, Ohio, as of June 30, 2016, and the respective changes in financial position thereof for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis, required budgetary comparison schedule for the General Fund* and schedules of net pension liabilities and pension contributions listed in the table of contents, 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 applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, consisting 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 opine or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to opine or provide any other assurance.

Supplementary and Other Information

Our audit was conducted to opine on the District's basic 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 not a required part of the financial statements.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 28, 2017, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters.

That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

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

Dave Yost
Auditor of State

Columbus, Ohio

February 28, 2017

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**Southwest Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2016
(Unaudited)**

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

Financial Highlights

Key financial highlights for fiscal year 2016 are as follows:

- In total, net position increased \$1,166,114.
- General revenues accounted for \$29,832,698 in revenue or 82% of all revenues. Program specific revenues in the form of charges for services and sales and operating grants and contributions accounted for \$6,484,018 or 18% of total revenues of \$36,316,716.
- The District had \$35,150,602 in expenses related to governmental activities; only \$6,484,018 of these expenses were offset by program specific charges for services and operating grants or contributions. General revenues of \$29,832,698 were also used to provide for these programs.

Overview of the 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. The General and Debt Service Funds are the major funds of the District.

Government-wide Financial Statements

While this document contains the large number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2016?" The Government-wide Financial Statements answer this question. These statements include *all assets, deferred outflows of resources, liabilities and deferred inflows of resources* using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

**Southwest Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2016
(Unaudited)**

These two statements report the District's *net position* and changes in the position. This change in net position is important because it tells the reader that, for the District as a whole, the financial position has improved or diminished. The causes of this change may be the result of many factors, both financial and non-financial. 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 Government-wide Financial Statements, the overall financial position of the District is presented in the following manner:

- **Governmental Activities** – Most of the District's programs and services are reported here including instruction, support services, operation of non-instructional services, extracurricular activities, and interest and fiscal charges.

Fund Financial Statements

The analysis of the District's major funds is presented in the Fund Financial Statements. 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.

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 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 financial statements.

Fiduciary Funds Fiduciary Funds are used to account for resources held for the benefits of parties outside the government. Fiduciary Funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the District's own programs.

The District as a Whole

Recall that the Statement of Net position provides the perspective of the District as a whole.

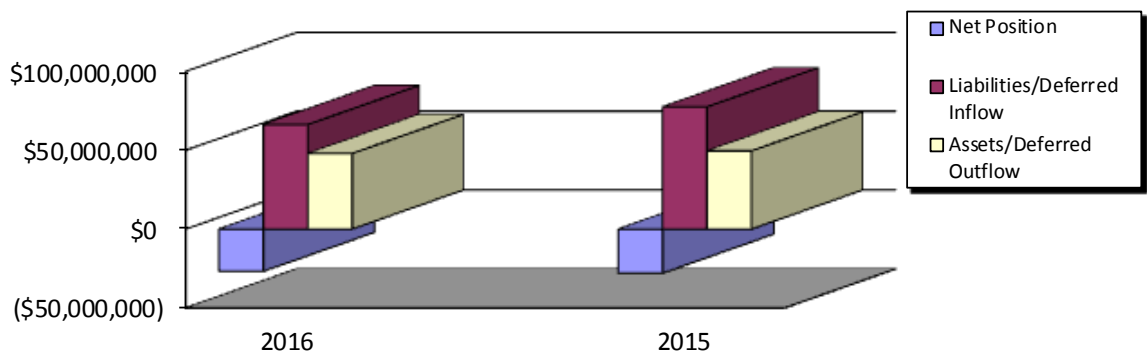
Table 1 provides a summary of the District's net position for 2016 compared to 2015:

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**Southwest Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2016
(Unaudited)**

**Table 1
Net Position**

	Governmental Activities	
	2016	2015
Assets:		
Current and Other Assets	\$27,451,374	\$25,470,779
Capital Assets	20,474,982	21,160,223
Total Assets	47,926,356	46,631,002
Deferred Outflows of Resources:		
Deferred Charge on Refunding Pension	79,313	111,457
	4,368,317	2,828,258
Total Deferred Outflows of Resources	4,447,630	2,939,715
Liabilities:		
Other Liabilities	3,271,418	3,382,093
Long-Term Liabilities	62,995,858	59,269,980
Total Liabilities	66,267,276	62,652,073
Deferred Inflows of Resources:		
Property Taxes	9,005,000	7,410,000
Revenue in Lieu of Taxes	225,915	322,000
Pension	3,636,236	7,113,199
Total Deferred Inflows of Resources	12,867,151	14,845,199
Net Position		
Net Investment in Capital Assets	6,337,913	5,755,403
Restricted	4,310,126	3,998,150
Unrestricted	(37,408,480)	(37,680,108)
Total Net Position	(\$26,760,441)	(\$27,926,555)



**Southwest Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2016
(Unaudited)**

Over time, net position can serve as a useful indicator of a government's financial position. At June 30, 2016, the District's liabilities exceeded assets by \$26,760,441.

At year-end, capital assets represented 43% of total assets. Capital assets include land, land improvements, buildings and improvements, and equipment. Capital assets, net of related debt to acquire the assets at June 30, 2016, were \$6,337,913. 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, \$4,310,126, represents resources that are subject to external restriction on how they must be used. The external restriction will not affect the availability of fund resources for future use.

Current and Other Assets increased mainly due to an increase cash and investments. Long Term Liabilities increased due the increase in Net Pension Liability.

Table 2 shows the change in net position for fiscal year 2016 and 2015.

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**Southwest Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2016
(Unaudited)**

**Table 2
Changes in Net Position**

	Governmental Activities	
	2016	2015
Revenues:		
Program Revenues		
Charges for Services and Sales	\$1,661,697	\$1,764,876
Operating Grants and Contributions	4,822,321	5,024,084
General Revenue:		
Income Taxes	3,992,634	4,039,736
Property Taxes	10,871,354	12,048,618
Grants and Entitlements	14,405,705	14,250,111
Other	563,005	716,268
Total Revenues	<u>36,316,716</u>	<u>37,843,693</u>
Program Expenses:		
Instruction	22,755,416	22,953,639
Support Services:		
Pupil and Instructional Staff	2,109,263	2,256,954
General and School Administrative and Fiscal	3,577,232	3,405,852
Operations and Maintenance	2,597,739	2,903,286
Pupil Transportation	1,059,876	1,386,135
Central	92,089	108,462
Operation of Non-Instructional Services	1,535,996	1,598,881
Extracurricular Activities	764,930	792,691
Interest and Fiscal Charges	658,061	714,226
Total Expenses	<u>35,150,602</u>	<u>36,120,126</u>
Change in Net Position	1,166,114	1,723,567
Beginning Net Position	<u>(27,926,555)</u>	<u>(29,650,122)</u>
Ending Net Position	<u><u>(\$26,760,441)</u></u>	<u><u>(\$27,926,555)</u></u>

The District revenues are mainly from three sources. Income taxes, property taxes levied for general and debt service purposes and grants and entitlements comprised 81% of the District's revenues for governmental activities.

The District depends greatly on property taxes as a revenue source. The unique nature of property taxes in Ohio creates the need to routinely seek voter approval for operating funds. The overall revenues generated by a levy will not increase solely as a result of inflation. As an example, a homeowner with a home valued at \$100,000 and taxed at 1.0 mill would pay \$35.00 annually in taxes. If three years later

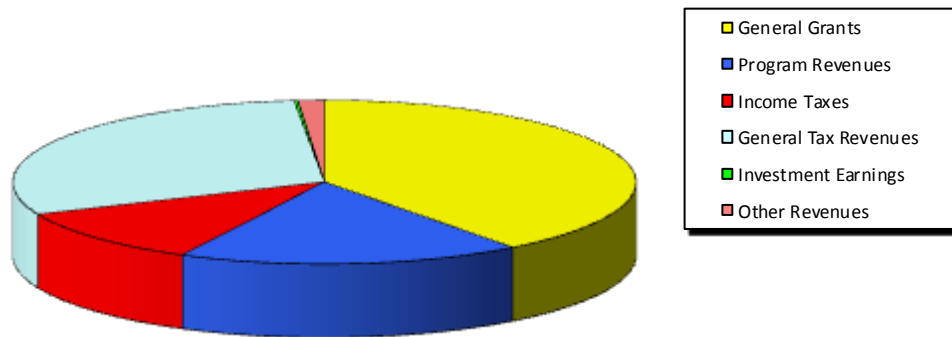
**Southwest Local School District
Management’s Discussion and Analysis
For the Fiscal Year Ended June 30, 2016
(Unaudited)**

the home was reappraised and increased to \$200,000 (and this inflationary increase in value is comparable to other property owners) the effective tax rate would become .5 mills and the owner would still pay \$35.00.

Thus, Ohio districts do not collect additional property taxes on the increase in property value due to the increase in appraisal value and must regularly return to the voters to maintain a constant level of service. Property taxes made up 30% of revenue for governmental activities for the District in fiscal year 2016.

**Governmental Activities
Revenue Sources**

Revenue Sources	2016	Percentage
General Grants	\$14,405,705	39.7%
Program Revenues	6,484,018	17.8%
Income Taxes	3,992,634	11.0%
General Tax Revenues	10,871,354	29.9%
Investment Earnings	63,628	0.2%
Other Revenues	499,377	1.4%
Total Revenue Sources	<u>\$36,316,716</u>	<u>100.0%</u>



Instruction comprises 65% of total governmental program expenses. Support services expenses were 27% of total governmental program expenses. All other expenses and interest expense was 8% Interest expense was attributable to the outstanding bond and borrowing for capital projects.

Property Taxes decreased mainly due to a decrease in property tax advances available. Operating Grants and Contributions decreased mainly due to a decrease in grant monies received. Total expenses decreased in fiscal year 2016 as compared to fiscal year 2015 mainly due to decreases in support services.

Governmental Activities

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 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 entitlements.

**Southwest Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2016
(Unaudited)**

**Table 3
Governmental Activities**

	Total Cost of Services		Net Cost of Services	
	2016	2015	2016	2015
Instruction	\$22,755,416	\$22,953,639	(\$18,407,330)	(\$18,405,310)
Support Services:				
Pupil and Instructional Staff	2,109,263	2,256,954	(2,059,034)	(2,205,943)
General and School Administrative and Fiscal	3,577,232	3,405,852	(3,576,072)	(3,404,955)
Operations and Maintenance	2,597,739	2,903,286	(2,441,045)	(2,733,514)
Pupil Transportation	1,059,876	1,386,135	(1,023,478)	(1,355,863)
Central	92,089	108,462	(81,289)	(97,662)
Operation of Non-Instructional Services	1,535,996	1,598,881	77,098	83,244
Extracurricular Activities	764,930	792,691	(497,373)	(496,937)
Interest and Fiscal Charges	658,061	714,226	(658,061)	(714,226)
Total Expenses	<u>\$35,150,602</u>	<u>\$36,120,126</u>	<u>(\$28,666,584)</u>	<u>(\$29,331,166)</u>

The District's Major Funds

The District has two major governmental funds: the General Fund and the Debt Service Fund. Assets of the general fund comprised \$21,659,137 (79%) and the debt service fund comprised \$4,917,493 (18%) of the total \$27,451,374 governmental funds' assets.

General Fund: Fund balance at June 30, 2016 was \$9,656,739, an increase in fund balance of \$515,075 from 2015. The primary reasons for the increase in fund balance are due to an increase in equity in pooled cash and investments.

Debt Service Fund: Fund balance at June 30, 2016 was \$4,005,174, an increase in fund balance of \$162,513 from 2015. The primary reason for the increase was mainly due to an increase in other financing sources.

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 2016, the District amended its general fund; however none of the amendments were significant. The District uses site-based budgeting and the budgeting systems are designed to tightly control total site budgets but provide flexibility for site management. During the course of the year, the District revised the budget in an attempt to deal with unexpected changes in revenues and expenditures.

**Southwest Local School District
Management’s Discussion and Analysis
For the Fiscal Year Ended June 30, 2016
(Unaudited)**

For the General Fund, original budget basis revenue was \$31,001,703 and final budget basis revenue was \$31,001,703. Final budget expenditures were \$32,275,594, compared to actual budgeted expenditures of \$30,658,426. Of the \$1,617,168 difference, most was due to an overestimate of instruction expenditures.

The General Fund’s ending unobligated cash balance was \$7,224,936.

Capital Assets and Debt Administration

Capital Assets

At fiscal year end, the District had \$20,474,982 invested in land, land improvements, buildings and improvements and equipment. Table 4 shows fiscal year 2016 balances compared to fiscal year 2015:

**Table 4
Capital Assets at Year End
(Net of Depreciation)**

	<u>Governmental Activities</u>	
	<u>2016</u>	<u>2015</u>
Land	\$2,990,625	\$2,990,625
Land Improvements	226,654	336,811
Buildings and Improvements	16,350,240	17,084,005
Equipment	<u>907,463</u>	<u>748,782</u>
Total Net Capital Assets	<u>\$20,474,982</u>	<u>\$21,160,223</u>

The overall decrease in capital assets is due to current year depreciation expense exceeding current year capital asset additions.

See Note 6 to the basic financial statements for further details on the District’s capital assets.

Debt

At June 30, 2016, the District had \$14,753,101 in bonds and notes outstanding, \$795,000 due within one year. Table 5 summarizes bonds and notes outstanding.

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**Southwest Local School District
Management’s Discussion and Analysis
For the Fiscal Year Ended June 30, 2016
(Unaudited)**

**Table 5
Outstanding Debt at Year End**

	Governmental Activities	
	2016	2015
<u>General Obligation Bonds and Notes:</u>		
1999 School Improvement Bonds B	\$0	\$350,000
2008 Refunding Bonds:		
Current Interest Bonds A	4,290,000	4,315,000
Capital Appreciation Bonds A	55,000	55,000
Accretion of Interest A	269,708	256,817
Current Interest Bonds B	4,415,000	4,440,000
Capital Appreciation Bonds B	50,000	50,000
Accretion of Interest B	267,011	254,268
2012 Refunding School Improvement Bonds	2,290,000	2,645,000
Premium on 2008 A and B Refunding Bonds	301,382	335,192
HB264 Series 2011	<u>2,815,000</u>	<u>2,815,000</u>
Total	<u>\$14,753,101</u>	<u>\$15,516,277</u>

See Note 7 to the basic financial statements for further details on the District’s long-term obligations.

For the Future

In June 2013, Governor John Kasich signed the 2014-15 biennial budget (House Bill 59). HB59 changed the state funding formula for public education. Public school districts in Ohio have seen five different state funding “formula” or calculations within the last decade. HB59 funding for Districts is based on several factors, including enrollment and specific student demographic groups, such as economically disadvantaged students. School districts may receive up to a 6.25% increase in fiscal year 2014 and up to a 10.50% increase in fiscal year 2015. School districts that receive these increases are known as districts “on the cap” or “on the formula”. Southwest Local School District will receive no additional state funding for 2014, or 2015, meaning Southwest Local School District is a “guarantee” District. Southwest Local School District will receive the same level of funding in 2014 and 2015, as received in 2013. Fiscal years 2016 and beyond are not known at this time, meaning that items such as state funding, tangible personal property reimbursement, and medical rates are not known at this time.

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 the Treasurer at Southwest Local School District, 230 South Elm Street, Harrison, Ohio 45030.

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Southwest Local School District
Statement of Net Position
June 30, 2016

	Governmental Activities
Assets:	
Equity in Pooled Cash and Investments	\$11,627,650
Cash and Cash Equivalents with Fiscal Agent	915,000
Receivables (Net):	
Taxes	14,299,719
Accounts	5,369
Interest	13,340
Intergovernmental	561,383
Prepaid	28,913
Nondepreciable Capital Assets	2,990,625
Depreciable Capital Assets, Net	<u>17,484,357</u>
 Total Assets	 <u>47,926,356</u>
Deferred Outflows of Resources:	
Deferred Charge on Refunding Pension	79,313
	<u>4,368,317</u>
 Total Deferred Outflows of Resources	 <u>4,447,630</u>
Liabilities:	
Accounts Payable	60,832
Accrued Wages and Benefits	3,155,022
Contracts Payable	6,350
Accrued Interest Payable	49,214
Long-Term Liabilities:	
Due Within One Year	955,597
Due In More Than One Year	
Net Pension Liability	43,658,811
Other Amounts	<u>18,381,450</u>
 Total Liabilities	 <u>66,267,276</u>
Deferred Inflows of Resources:	
Property Taxes	9,005,000
Grants and Other Taxes	225,915
Pension	<u>3,636,236</u>
 Total Deferred Inflows of Resources	 <u>12,867,151</u>
Net Position:	
Net Investment in Capital Assets	6,337,913
Restricted for:	
Debt Service	4,003,279
Capital Projects	30,366
Other Local Grants	29,634
Extracurricular	57,937
Vocational Education	738
Special Education	86,284
Food Service	60,967
Auxiliary Services	40,921
Unrestricted	<u>(37,408,480)</u>
 Total Net Position	 <u>(\$26,760,441)</u>

See accompanying notes to the basic financial statements.

Southwest Local School District
Statement of Activities
For the Fiscal Year Ended June 30, 2016

	Expenses	Program Revenues		Net (Expense) Revenue
		Charges for Services and Sales	Operating Grants and Contributions	and Changes in Net Position Governmental Activities
Governmental Activities:				
Instruction:				
Regular	\$16,655,644	\$391,883	\$749,164	(\$15,514,597)
Special	5,328,612	23,617	2,388,494	(2,916,501)
Vocational	2,112	0	2,815	703
Adult/Continuing	11,020	0	0	(11,020)
Other	758,028	280,879	511,234	34,085
Support Services:				
Pupil	1,776,262	0	32,583	(1,743,679)
Instructional Staff	333,001	0	17,646	(315,355)
General Administration	42,770	0	0	(42,770)
School Administration	2,566,419	0	1,160	(2,565,259)
Fiscal	968,043	0	0	(968,043)
Operations and Maintenance	2,597,739	79,214	77,480	(2,441,045)
Pupil Transportation	1,059,876	6,260	30,138	(1,023,478)
Central	92,089	0	10,800	(81,289)
Operation of Non-Instructional Services	1,535,996	612,287	1,000,807	77,098
Extracurricular Activities	764,930	267,557	0	(497,373)
Interest and Fiscal Charges	658,061	0	0	(658,061)
Totals	\$35,150,602	\$1,661,697	\$4,822,321	(28,666,584)

General Revenues:	
Income Taxes	3,992,634
Property Taxes Levied for:	
General Purposes	9,803,061
Debt Service Purposes	1,068,293
Grants and Entitlements, Not Restricted	14,405,705
Revenue in Lieu of Taxes	225,948
Unrestricted Contributions	5,941
Investment Earnings	63,628
Other Revenues	267,488
Total General Revenues	29,832,698
Change in Net Position	1,166,114
Net Position - Beginning of Year	(27,926,555)
Net Position - End of Year	(\$26,760,441)

See accompanying notes to the basic financial statements.

Southwest Local School District
Balance Sheet
Governmental Funds
June 30, 2016

	General	Debt Service	Other Governmental Funds	Total Governmental Funds
Assets:				
Equity in Pooled Cash and Investments	\$8,321,288	\$2,770,174	\$536,188	\$11,627,650
Cash and Cash Equivalents with Fiscal Agent	0	915,000	0	915,000
Receivables (Net):				
Taxes	13,067,400	1,232,319	0	14,299,719
Accounts	5,343	0	26	5,369
Interest	13,340	0	0	13,340
Intergovernmental	225,915	0	335,468	561,383
Prepaid	25,851	0	3,062	28,913
Total Assets	21,659,137	4,917,493	874,744	27,451,374
Liabilities:				
Accounts Payable	52,112	0	8,720	60,832
Accrued Wages and Benefits	2,830,979	0	324,043	3,155,022
Compensated Absences	32,017	0	18,055	50,072
Contracts Payable	0	0	6,350	6,350
Total Liabilities	2,915,108	0	357,168	3,272,276
Deferred Inflows of Resources:				
Property Taxes	8,579,568	912,319	0	9,491,887
Income Taxes	279,100	0	0	279,100
Grants and Other Taxes	225,915	0	335,468	561,383
Investment Earnings	2,707	0	0	2,707
Total Deferred Inflows of Resources	9,087,290	912,319	335,468	10,335,077
Fund Balances:				
Nonspendable	25,851	0	3,062	28,913
Restricted	0	4,005,174	372,160	4,377,334
Assigned	394,682	0	0	394,682
Unassigned	9,236,206	0	(193,114)	9,043,092
Total Fund Balances	9,656,739	4,005,174	182,108	13,844,021
Total Liabilities, Deferred Inflows and Fund Balances	\$21,659,137	\$4,917,493	\$874,744	\$27,451,374

See accompanying notes to the basic financial statements.

Southwest Local School District
 Reconciliation of Total Governmental Fund Balance to
 Net Position of Governmental Activities
 June 30, 2016

Total Governmental Fund Balance		\$13,844,021
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		
Capital assets used in the operation of Governmental Funds		20,474,982
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.		
Income Taxes	\$279,100	
Delinquent Property Taxes	486,887	
Interest	2,707	
Intergovernmental	<u>335,468</u>	
		1,104,162
In the statement of net position interest payable is accrued when incurred; whereas, in the governmental funds interest is reported as a liability only when it will require the use of current financial resources.		
		(49,214)
Some liabilities reported in the statement of net position do not require the use of current financial resources and, therefore, are not reported as liabilities in governmental funds.		
Compensated Absences		(4,533,874)
Deferred charge on refunding associated with long-term liabilities that are not reported in the funds.		
		79,313
Deferred outflows and inflows or resources related to pensions are applicable to future periods and, therefore, are not reported in the funds.		
Deferred outflows of resources related to pensions	\$4,368,317	
Deferred inflows of resources related to pensions	<u>(3,636,236)</u>	
		732,081
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.		
Net Pension Liability	(\$43,658,811)	
Other Amounts	<u>(14,753,101)</u>	
		<u>(58,411,912)</u>
Net Position of Governmental Activities		<u><u>(\$26,760,441)</u></u>

See accompanying notes to the basic financial statements.

Southwest Local School District
Statement of Revenues, Expenditures
and Changes in Fund Balance
Governmental Funds
For the Fiscal Year Ended June 30, 2016

	General	Debt Service	Other Governmental Funds	Total Governmental Funds
Revenues:				
Property and Other Taxes	\$9,803,061	\$1,068,293	\$0	\$10,871,354
Income Taxes	3,960,763	0	0	3,960,763
Tuition and Fees	703,679	0	0	703,679
Investment Earnings	62,758	0	3	62,761
Intergovernmental	16,063,934	292,066	2,732,037	19,088,037
Extracurricular Activities	56,853	0	210,704	267,557
Charges for Services	15,942	0	674,519	690,461
Revenue in Lieu of Taxes	225,915	33	0	225,948
Other Revenues	216,361	0	57,070	273,431
Total Revenues	31,109,266	1,360,392	3,674,333	36,143,991
Expenditures:				
Current:				
Instruction:				
Regular	15,217,243	0	664,031	15,881,274
Special	4,330,803	0	982,467	5,313,270
Vocational	2,112	0	0	2,112
Adult/Continuing	11,020	0	0	11,020
Other	758,028	0	0	758,028
Support Services:				
Pupil	1,830,978	0	28,789	1,859,767
Instructional Staff	316,978	0	19,997	336,975
General Administration	42,968	0	0	42,968
School Administration	2,562,572	0	971	2,563,543
Fiscal	947,088	17,973	0	965,061
Operations and Maintenance	2,405,025	0	151,458	2,556,483
Pupil Transportation	1,311,852	0	0	1,311,852
Central	81,289	0	10,800	92,089
Operation of Non-Instructional Services	162	0	1,525,926	1,526,088
Extracurricular Activities	560,959	0	196,844	757,803
Capital Outlay	3,437	0	25,431	28,868
Debt Service:				
Principal Retirement	0	755,000	0	755,000
Interest and Fiscal Charges	0	636,583	0	636,583
Total Expenditures	30,382,514	1,409,556	3,606,714	35,398,784
Excess of Revenues Over (Under) Expenditures	726,752	(49,164)	67,619	745,207
Other Financing Sources (Uses):				
Transfers In	0	211,677	0	211,677
Transfers (Out)	(211,677)	0	0	(211,677)
Total Other Financing Sources (Uses)	(211,677)	211,677	0	0
Net Change in Fund Balance	515,075	162,513	67,619	745,207
Fund Balance - Beginning of Year	9,141,664	3,842,661	114,489	13,098,814
Fund Balance - End of Year	\$9,656,739	\$4,005,174	\$182,108	\$13,844,021

See accompanying notes to the basic financial statements.

Southwest Local School District
 Reconciliation of the Statement of Revenues, Expenditures, and Changes
 in Fund Balance of Governmental Funds to the Statement of Activities
 For the Fiscal Year Ended June 30, 2016

Net Change in Fund Balance - Total Governmental Funds \$745,207

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

Governmental funds report capital asset additions as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of the difference between capital asset additions and depreciation in the current period.

Capital assets used in governmental activities	\$363,562	
Depreciation Expense	<u>(1,048,803)</u>	(685,241)

Governmental funds report district pension contributions as expenditures. However in the Statement of Activities, the cost of pension benefits earned net of employee contributions is reported as pension expense.

District pension contributions	\$2,535,012	
Cost of benefits earned net of employee contributions	<u>(2,050,426)</u>	484,586

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.

Income Taxes	\$31,871	
Interest	867	
Intergovernmental	<u>139,987</u>	172,725

Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.

755,000

In the statement of activities interest expense is accrued when incurred; whereas, in governmental funds an interest expenditure is reported when due.

2,490

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

Compensated Absences	(\$284,685)	
Amortization of Bond Premium	33,810	
Amortization of Deferred Charge on Refunding	(32,144)	
Bond Accretion	<u>(25,634)</u>	(308,653)

Change in Net Position of Governmental Activities

\$1,166,114

See accompanying notes to the basic financial statements.

Southwest Local School District
Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2016

	Private Purpose Trust	Agency
	<u> </u>	<u> </u>
Assets:		
Equity in Pooled Cash and Investments	\$5,067	\$130,887
Receivables (Net):	<u> </u>	<u> </u>
Total Assets	<u>5,067</u>	<u>130,887</u>
Liabilities:		
Accounts Payable	0	6,768
Other Liabilities	<u>0</u>	<u>124,119</u>
Total Liabilities	<u>0</u>	<u>\$130,887</u>
Net Position:		
Held in Trust	<u>5,067</u>	
Total Net Position	<u>\$5,067</u>	

See accompanying notes to the basic financial statements.

Southwest Local School District
Statement of Changes in Fiduciary Net Position
Fiduciary Fund
For the Fiscal Year Ended June 30, 2016

	Private Purpose Trust
Additions:	
Donations	<u>\$9,000</u>
Total Additions	<u>9,000</u>
Deductions:	
Scholarships	<u>7,012</u>
Total Deductions	<u>7,012</u>
Change in Net Position	1,988
Net Position - Beginning of Year	<u>3,079</u>
Net Position - End of Year	<u>\$5,067</u>

See accompanying notes to the basic financial statements.

Southwest Local School District
Notes to the Basic Financial Statements
For The Fiscal Year Ended June 30, 2016

Note 1 – Description of the District

The Southwest Local School District (the “District”) was formed in 1954 with the consolidation of Harrison, Crosby and Whitewater School Districts. Today, the District operates under current standards prescribed by the Ohio State Board of Education as provided in division (D) of Section 3301.07 and Section 119.01 of the Ohio Revised Code.

The District operates under a locally elected five member Board form of government and provides educational services as authorized by its charter or further mandated by state and/or federal agencies. This Board controls the District's instructional and support facilities staffed by 134 non-certificated personnel and 197 certificated full time teaching and administrative personnel to provide services to students and other community members.

The District enrollment was 3,724. It currently operates six elementary schools, one junior school (grades 7-8), and one comprehensive high school (grades 9-12).

Reporting Entity

The financial reporting entity consists of a primary government. The District is a primary government because it is a special-purpose government that has a separately elected governing body, is legally separate, and is fiscally independent of other state and local governments.

There are no component units combined with the District for financial statement presentation purposes, and it is not included in any other governmental reporting entity. Consequently, the District's financial statements include only the funds of those organizational entities for which its elected governing body is financially accountable. The District's major operations include education, pupil transportation, food service, and maintenance of District facilities.

This District is associated with two organizations which are defined as jointly governed organizations. These organizations are the Hamilton/Clermont Cooperative Information Technology Center and Great Oaks Institute of Technology and Career Development. These organizations are presented in Note 11.

Note 2 – Summary of Significant Accounting Policies

The financial statements of the District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to 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.

Measurement Focus

Government-wide Financial Statements

The District's basic financial statements consist of government-wide statements, including a statement of net position and a statement of activities and fund financial statements, which provide a more detailed level of financial information.

Southwest Local School District
Notes to the Basic Financial Statements
For The Fiscal Year Ended June 30, 2016

The government-wide statements are prepared using the economic resources measurement focus. All assets and liabilities associated with the operation of the District are included on the statement of net position. Fiduciary Funds are not included in entity-wide statements.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues of the District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the District.

Fund Financial Statements

All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets, deferred outflows of resources, current liabilities, and deferred inflows of resources generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The private purpose trust fund is reported using the economic resources measurement focus.

Fund Accounting

The District uses funds to maintain its financial records during the fiscal year. Fund accounting is designed to demonstrate legal compliance and to aid management by segregating transactions related to certain District functions or activities. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The various funds of the District are grouped into the categories governmental and fiduciary. The focus of government fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column.

Governmental Funds

Governmental funds focus on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets, deferred outflows of resources, liabilities, and deferred inflows of resources is reported as fund balance. The following are the District's major governmental funds:

Southwest Local School District
Notes to the Basic Financial Statements
For The Fiscal Year Ended June 30, 2016

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

Debt Service Fund – The debt service fund is used to account for the accumulation of resources for 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.

Fiduciary Funds

Fiduciary fund reporting focuses on net position and changes in net position. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds and agency funds. Trust funds are used to account for assets held by the District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the District's own programs. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The District has a student activity fund which accounts for assets and liabilities generated by student managed activities. The District's only trust fund is a private purpose trust which accounts for scholarship programs for students.

Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Fiduciary funds also use the accrual basis of accounting. Differences in the actual and the modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred outflows/inflows of resources, and in the presentation of expenses versus expenditures.

Revenues – Exchange and 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. For the District, available means expected to be received within sixty days of fiscal year end.

Nonexchange transactions, in which the District receives value without directly giving equal value in return, included 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 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 nonexchange transactions must also be available before it can be recognized.

Southwest Local School District
Notes to the Basic Financial Statements
For The Fiscal Year Ended June 30, 2016

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at year end: property taxes available for advance, grants and interest.

Deferred Outflows/Inflows of Resources

In addition to assets, the statements of financial position will sometimes 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. The deferred outflows of resources related to pension are explained in Note 8.

In addition to liabilities, the statements of financial position 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, pension, and grants and other taxes. Property taxes represent amounts for which there is an enforceable legal claim as of June 30, 2016, but which were levied to finance year 2017 operations. These amounts have been recorded as deferred inflows 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, grants and other taxes includes tax incremental financing (TIF). These amounts are recognized as deferred inflows of resources in the period the amounts become available. TIF's have been recorded as deferred inflows on both the government-wide statement of net position and the governmental fund financial statements for the same reasons as property taxes.

Expenses/Expenditures

On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported in the operating statement as an expense with a like amount reported as donated commodities revenue. Unused donated commodities are reported as deferred inflows.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization, are not recognized in the governmental funds.

Equity in Pooled Cash and Investments

Cash received by the District is pooled for investment purposes. Interest in the pool is presented as "Equity in Pooled Cash and Investments" on the financial statements.

Investments are reported at fair value which is based on quoted market prices.

During fiscal year 2016, the School District invested in STAR Ohio. STAR Ohio (the State Treasury Asset Reserve of Ohio), is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered

Southwest Local School District
Notes to the Basic Financial Statements
For The Fiscal Year Ended June 30, 2016

with the SEC as an investment company, but has adopted Governmental Accounting Standards Board (GASB), Statement No. 79, "Certain External Investment Pools and Pool Participants." The School District measures their investment in STAR Ohio at the net asset value (NAV) per share provided by STAR Ohio. The NAV per share is calculated on an amortized cost basis that provides an NAV per share that approximates fair value.

For the fiscal year 2016, there were no limitations or restrictions on any participant withdrawals due to redemption notice periods, liquidity fees, or redemption gates. However, notice must be given 24 hours in advance of all deposits and withdrawals exceeding \$25 million. STAR Ohio reserves the right to limit the transaction to \$50 million, requiring the excess amount to be transacted the following business day(s), but only to the \$50 million limit. All accounts of the participant will be combined for these purposes.

Following Ohio statutes, the Board has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue during fiscal year 2016 amounted to \$62,758 in the general fund and \$3 in other governmental funds.

For presentation on the financial statements, all investments of the cash management pool are considered to be cash equivalents.

Inventory

Inventories are presented at cost on a first-in, first-out basis and are expensed/expensed when used. Inventories are accounted for using the purchase method on the fund level statements and using the consumption method on the government-wide statements.

On the fund financial statements, reported material and supplies inventory is equally offset by a fund balance assignment in the governmental funds which indicates that it does not constitute available spendable resources even though it is a component of net current assets.

Inventory consists of expendable supplies held for consumption, donated food and purchased food.

Capital Assets

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 has a capitalization threshold of \$2,500. 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.

All reported capital assets are depreciated, except land. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is allocated using the straight-line method over the following useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Land Improvements	10-45 years
Buildings and Improvements	10-45 years
Equipment	5-20 years

**Southwest Local School District
Notes to the Basic Financial Statements
For The Fiscal Year Ended June 30, 2016**

Compensated Absences

The District reports compensated absences in accordance with the provisions of GASB Statement No. 16, "Accounting for 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 vesting method. The entire compensated absence liability is reported on the government-wide financial statements.

For governmental fund financial statements, the expenditures for compensated absences are recognized when paid, or in the case of termination benefits, when due for payment. These amounts due at year end are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated unpaid leave are paid. Compensated absences are reported in governmental funds only if they have matured.

The District's policies regarding compensated absences are determined by the state laws and/or negotiated agreements. In summary, the policies are as follows:

<u>Vacation</u>	<u>Certified</u>	<u>Administrators</u>	<u>Non-certificated</u>
How earned	Not Eligible	20 days	11-26 days for each service year depending on length of service
Maximum Accumulation	Not Applicable	20 days	26 days
Vested	Not Applicable	As Earned	As Earned
Termination Entitlement	Not Applicable	None	None
<u>Sick Leave</u>	<u>Certified</u>	<u>Administrators</u>	<u>Non-certificated</u>
How Earned	1 1/4 days per month of employment (15 days per year)	1 1/4 days per month of employment (15 days per year)	1 1/4 days per month of employment (15 days per year)
Maximum Accumulation	300 days	300 days	300 days
Vested	As Earned	As Earned	As Earned
Termination Entitlement	Per Contract	Per Contract	Per Contract

**Southwest Local School District
Notes to the Basic Financial Statements
For The Fiscal Year Ended June 30, 2016**

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.

Net Position

Net position represents the difference between assets and deferred outflows of resources, and liabilities and deferred inflow of resources. Net investment in capital assets, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their 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 when an expense is incurred for purposes for which both restricted and unrestricted net position are available. Of the District's \$4,310,126 in restricted net position, none were restricted by enabling legislation.

Interfund Activity

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

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 activities column on the Statement of Net position.

As a general rule, the effect of interfund (internal) activity has been eliminated from the government-wide statement of activities. The interfund services provided and used are not eliminated in the process of consolidation.

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 following categories are used:

**Southwest Local School District
Notes to the Basic Financial Statements
For The Fiscal Year Ended June 30, 2016**

Nonspendable – resources that are not in spendable form (inventory) or have legal or contractual requirements to maintain the balance intact.

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

Committed – resources that are constrained for specific purposes that are internally imposed by the government at its highest level of decision making authority, the Board of Education. The formal action that is required to establish (and modify or rescind) a fund balance commitment is a Board Resolution.

Assigned – resources that are intended to be used for specific purposes as approved through the District’s formal purchasing procedure by the Treasurer.

Unassigned – residual fund balance within the General Fund that is not restricted, committed, or assigned. In other governmental funds, the unassigned classification is used only to report a deficit balance resulting from incurred expenses for specific purposes exceeding amounts, which had been restricted, committed or assigned for said purposes.

The District considers committed, assigned, and unassigned fund balances, respectively, to be spent when expenditures are incurred for purposes for which any of the unrestricted fund balance classifications could be used.

Estimates

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

Restricted Assets

Restricted Assets are assets that normally would be available for use in operations but may be more of limited use because of an externally enforceable constraint on how it may be used. The District’s main restricted asset was Cash and Cash Equivalents with Fiscal Agent.

Cash and Cash Equivalents with Fiscal Agent

The District has cash with fiscal agent in the debt service fund for the District’s HB264 QSCB’s principal payments made to a sinking fund. The Bank of New York Mellon Trust Co. is the paying agent and maintains the sinking fund.

Note 3 – Equity in Pooled Cash and Investments

The District maintains a cash and investment pool used by all funds. Each fund type's portion of this pool is displayed on the combined balance sheet as "Equity in Pooled Cash and Investments."

State statute requires the classification of monies held by the District into three categories:

Southwest Local School District
Notes to the Basic Financial Statements
For The Fiscal Year Ended June 30, 2016

Active Monies - Those monies required to be kept in a "cash" or "near cash" status for immediate use by the District. Such monies must by law be maintained either as cash in the District treasury, in depository accounts payable or withdrawable on demand.

Inactive Monies – Those monies not required for use within the current two year period of designated depositories. Ohio law permits inactive monies to be deposited or invested as certificates of deposit maturing not later than the end of the current period of designated depositories, or as savings or deposit accounts, including, but not limited to passbook accounts.

Interim Monies – 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. Ohio law permits interim monies to be invested or deposited in the following securities:

- (1) Bonds, notes, or other obligations of or guaranteed by the United States, or those for which the faith of the United States is pledged for the payment of principal and interest.
- (2) Bonds, notes, debentures, or other obligations or securities issued by any federal governmental agency.
- (3) No-load money market mutual funds consisting exclusively of obligations described in (1) or (2) above and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions.
- (4) Interim deposits in the eligible institutions applying for interim monies to be evidenced by time certificates of deposit maturing not more than one year from date of deposit, or by savings or deposit accounts, including, but limited to, passbook accounts.
- (5) Bonds, and other obligations of the State of Ohio.
- (6) The Ohio State Treasurer's investment pool (STAROhio).
- (7) Commercial paper and banker's acceptances, which meet the requirements established by Ohio Revised Code, Sec. 135.142.
- (8) Under limited circumstances, corporate debt interests in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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

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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.

Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The District's policy for deposits is any balance not covered by depository insurance will be collateralized by the financial institutions with pledged securities or a line of credit. As of June 30, 2016, \$1,405,542 of the District's bank balance of \$1,952,300 was exposed to custodial risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the District's name.

Ohio Revised Code Chapter 135, Uniform Depository Act, authorizes pledging of pooled securities in lieu of specific securities. Specifically, a designated public depository may pledge a single pool of eligible securities to secure repayment of all public monies deposited in the financial institution, provided that all times the total value of the securities so pledged is at least equal to 105% of the total amount of all public deposits secured by the pool, including the portion of such deposits covered by any federal deposit insurance.

Investments

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

Investment Type	Fair Value	Weighted Average Maturity (Years)
Money Market Funds	\$3,171,609	0.00
Negotiable CDs	6,769,112	0.82
STAR Ohio	19,795	0.15
Total Fair Value	\$9,960,516	
Portfolio Weighted Average Maturity		0.56

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets. Level 2 inputs are significant other observable inputs. Level 3 inputs are significant unobservable inputs. The above table identifies the District's recurring fair value measurements as of June 30, 2016. STAR Ohio is reported at its share price. All other investments of the District are valued using quoted market prices.

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Interest Rate Risk - In accordance with the investment policy, the District manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio to three years.

Credit Risk – It is the District’s policy to limit its investments that are not obligations of the U.S. Government or obligations explicitly guaranteed by the U.S. Government to investments, which have the highest credit quality rating issued by nationally recognized statistical rating organizations. The District’s investments in the Federal Farm Credit Bank were rated AA+ by Standard and Poor’s and Fitch ratings and Aaa by Moody’s Investment Service. Investments in STAROhio were rated AAAM by Standard & Poors. Money Market Funds and Negotiable CD’s were not rated.

Concentration of Credit Risk – The District’s investment policy allows investments in Federal Agencies or Instrumentalities. The District has invested 68% of the District’s investment in Negotiable CD’s, 32% in Money Market Funds, and less than 1% in STAR Ohio.

Custodial Credit Risk – It 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. All of the District’s securities are either insured and registered in the name of the District or at least registered in the name of the District.

Note 4 – Property and Income Taxes

Property taxes are levied and assessed on a calendar year basis. Second half distributions occur in a new fiscal year. Property taxes include amounts levied against all real and public utility located in the District. Real property taxes are levied after April 1 on the assessed value listed as of the prior January 1, the lien date. Public utility property taxes attached as a lien on December 31 of the prior year, were levied April 1 and are collected with real property taxes. Assessed values for real property taxes are established by State law at 35 percent of appraised market value. All property is required to be revalued every six years. Public utility property taxes are assessed on real property at 35 percent of true value.

Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, 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. The District receives property taxes from Hamilton County. The County Auditor periodically advances to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2016, are available to finance fiscal year 2017 operations. The amount available for advance can vary based on the date the tax bills are sent.

Accrued property taxes receivable represents delinquent taxes outstanding and real property and public utility taxes that became measurable as of June 30, 2016. Although total property tax collections for the next fiscal year are measurable, only the amount available as an advance at June 30 is intended to finance current fiscal year operations. The receivable is therefore offset by a credit to deferred revenue for that portion not intended to finance \$13,067,400 in the General Fund and \$1,232,319 in the Debt Service Fund.

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

Southwest Local School District
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	<u>Amount</u>
Agricultural/Residential and Other Real Estate	\$493,996,850
Public Utility Personal	<u>27,700,630</u>
Total	<u><u>\$521,697,480</u></u>

Income Tax

The District levies a voted tax of 0.75 percent for general operations on the earned income of residents. The tax was effective on January 1, 2007, and is a continuous levy. Employers of residents are required to withhold income tax on compensation and remit the tax to the State. Taxpayers are required to file an annual return. The State makes quarterly distributions to the District after withholding amounts for administrative fees and estimated refunds. Income tax revenue is credited to the General Fund.

Note 5 – Receivables

Receivables at June 30, 2016, consisted of taxes, accounts (rent and student fees), interest, and intergovernmental grants. 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.

Note 6 – Capital Assets

Capital asset activity for the fiscal year ended June 30, 2016, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Governmental Activities				
<i>Capital Assets, not being depreciated:</i>				
Land	\$2,990,625	\$0	\$0	\$2,990,625
<i>Capital Assets, being depreciated:</i>				
Land Improvements	2,686,299	0	0	2,686,299
Buildings and Improvements	34,701,942	0	0	34,701,942
Equipment	<u>5,909,732</u>	<u>363,562</u>	<u>0</u>	<u>6,273,294</u>
Totals at Historical Cost	<u>46,288,598</u>	<u>363,562</u>	<u>0</u>	<u>46,652,160</u>
Less Accumulated Depreciation:				
Land Improvements	2,349,488	110,157	0	2,459,645
Buildings and Improvements	17,617,937	733,765	0	18,351,702
Equipment	<u>5,160,950</u>	<u>204,881</u>	<u>0</u>	<u>5,365,831</u>
Total Accumulated Depreciation	<u>25,128,375</u>	<u>1,048,803</u>	<u>0</u>	<u>26,177,178</u>
Governmental Activities Capital Assets, Net	<u>\$21,160,223</u>	<u>(\$685,241)</u>	<u>\$0</u>	<u>\$20,474,982</u>

Southwest Local School District
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Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$793,580
Special	53,837
Support Services:	1,500
Instructional Staff	2,056
School Administration	45,098
Fiscal	442
Operations and Maintenance	53,157
Pupil Transportation	55,872
Operation of Non-Instructional Services	26,067
Extracurricular Activities	17,194
Total Depreciation Expense	<u>\$1,048,803</u>

Note 7 – Long-Term Liabilities

	Interest Rate	Issuance Date	Maturity Date	Restated Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
Governmental Activities								
<u>General Obligation Bonds:</u>								
\$10,000,000 - School Improvement B	5.05%	5/1/99	12/1/18	\$350,000	\$0	(\$350,000)	\$0	\$0
Refunding A:								
\$4,540,000 - Current Interest	4.00%	12/1/07	12/1/19	4,315,000	0	(25,000)	4,290,000	25,000
\$55,000 - Capital Appreciation	4.00%	12/1/07	12/1/19	55,000	0	0	55,000	0
Accretion of Interest	0.00%	12/1/07	12/1/19	256,817	12,891	0	269,708	0
Refunding B:								
\$4,665,000 - Current Interest	4.00%	12/1/07	12/1/20	4,440,000	0	(25,000)	4,415,000	25,000
\$50,000 - Capital Appreciation	4.00%	12/1/07	12/1/20	50,000	0	0	50,000	0
Accretion of Interest	0.00%	12/1/07	12/1/20	254,268	12,743	0	267,011	0
2012 Refunding School Improvement Bonds	0.00%	12/1/11	12/1/18	2,645,000	0	(355,000)	2,290,000	745,000
\$475,136 - Premium on A and B Refunding	0.00%	12/1/07	12/1/20	335,192	0	(33,810)	301,382	0
\$2,815,000 - HB264	6.00%	3/10/11	12/1/25	2,815,000	0	0	2,815,000	0
Total Bonds				<u>15,516,277</u>	<u>25,634</u>	<u>(788,810)</u>	<u>14,753,101</u>	<u>795,000</u>
Net Pension Liability								
STRS				33,605,493	3,968,604	0	37,574,097	0
SERS				5,520,882	563,832	0	6,084,714	0
Total Net Pension Liability				<u>39,126,375</u>	<u>4,532,436</u>	<u>0</u>	<u>43,658,811</u>	<u>0</u>
Compensated Absences								
				<u>4,627,328</u>	<u>467,559</u>	<u>(510,941)</u>	<u>4,583,946</u>	<u>160,597</u>
Total Governmental Activities Long-Term Liabilities				<u>\$59,269,980</u>	<u>\$5,025,629</u>	<u>(\$1,299,751)</u>	<u>\$62,995,858</u>	<u>\$955,597</u>

General obligation bonds will be paid from the debt service fund. Compensated absences will be paid from the fund from which the person is paid.

Principal and interest requirements to retire debt outstanding at year end are as follows:

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Fiscal Year Ending June 30	General Obligation Bonds			Capital Appreciation Bonds		
	Principal	Interest	Total	Principal	Interest	Total
2017	\$795,000	\$598,052	\$1,393,052	\$0	\$0	\$0
2018	835,000	573,668	1,408,668	105,000	825,000	930,000
2019	860,000	549,499	1,409,499	0	0	0
2020	460,000	526,690	986,690	0	0	0
2021	450,000	507,865	957,865	0	0	0
2022-2026	7,990,000	1,874,798	9,864,798	0	0	0
2027-2028	2,420,000	110,475	2,530,475	0	0	0
Total	<u>\$13,810,000</u>	<u>\$4,741,047</u>	<u>\$18,551,047</u>	<u>\$105,000</u>	<u>\$825,000</u>	<u>\$930,000</u>

Note 8 - 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

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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 65 with 5 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, 2.5 percent for years of service credit over 30 or \$86.00 multiplied by the years of service credit. Final average salary is the average of the highest three years of salary.

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

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

The District's contractually required contribution to SERS was \$485,760 for fiscal year 2016. Of this amount \$94,101 is reported as accrued wages and benefits.

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.

Southwest Local School District
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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 increased effective August 1, 2015, and will continue to increase periodically until they reach age 60 with 35 years of service or age 65 with five 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, 2016, plan members were required to contribute 13 percent of their annual covered salary. The District was required to contribute 14 percent; the entire 14 percent was the portion used to fund pension obligations. The fiscal year 2016 contribution rates were equal to the statutory maximum rates.

Southwest Local School District
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The District's contractually required contribution to STRS was \$2,049,252 for fiscal year 2016. Of this amount \$346,124 is reported as accrued wages and benefits.

Net Pension Liability

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

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportionate Share of the Net Pension Liability	\$6,084,714	\$37,574,096	\$43,658,810
Proportion of the Net Pension Liability	0.10663530%	0.13595540%	
Pension Expense	383,684	1,708,610	2,092,294

At June 30, 2016, 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	\$99,032	\$1,718,068	\$1,817,100
Changes in employer proportion and differences between contributions and proportionate share of contributions	24,389	(8,185)	16,204
District contributions subsequent to the measurement date	<u>485,760</u>	<u>2,049,252</u>	<u>2,535,012</u>
Total Deferred Outflows of Resources	<u>\$609,181</u>	<u>\$3,759,135</u>	<u>\$4,368,316</u>
Deferred Inflows of Resources			
Net difference between projected and actual earnings on pension plan investments	\$221,753	\$2,801,531	\$3,023,284
Changes in employer proportion and differences between contributions and proportionate share of contributions	(20,147)	(99,242)	(119,389)
Changes in employer proportionate share of net pension liability	<u>128,689</u>	<u>603,652</u>	<u>732,341</u>
Total Deferred Inflows of Resources	<u>\$330,295</u>	<u>\$3,305,941</u>	<u>\$3,636,236</u>

\$2,535,012 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:

Southwest Local School District
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	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Fiscal Year Ending June 30:			
2017	(\$114,252)	(\$767,279)	(\$881,531)
2018	(114,252)	(767,279)	(881,531)
2019	(114,726)	(767,277)	(882,003)
2020	<u>111,967</u>	<u>713,963</u>	<u>825,930</u>
Total	<u>(\$231,263)</u>	<u>(\$1,587,872)</u>	<u>(\$1,819,135)</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, 2015, are presented below:

Wage Inflation	3.25 percent
Future Salary Increases, including inflation	4 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.

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

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

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

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

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
District's proportionate share of the net pension liability	\$8,437,311	\$6,084,714	\$4,103,633

Changes Between Measurement Date and Report Date In April 2016, the SERS Board adopted certain assumption changes which impacted their annual actuarial valuation prepared as of June 30, 2016. The

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most significant change is a reduction in the discount rate from 7.75 percent to 7.5 percent. Although the exact amount of these changes is not known, the impact to the School District's net pension liability is expected to be significant.

Actuarial Assumptions - STRS

The total pension liability in the July 1, 2015, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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

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

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

The 10 year expected real rate of return on pension plan investments was determined by STRS' 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
Total	100.00 %	

Discount Rate The discount rate used to measure the total pension liability was 7.75 percent as of June 30, 2015. The projection of cash flows used to determine the discount rate assumes member and employer contributions will be made at the statutory contribution rates in accordance with rate increases described above. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those

**Southwest Local School District
Notes to the Basic Financial Statements
For The Fiscal Year Ended June 30, 2016**

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 percent was applied to all periods of projected benefit payment to determine the total pension liability as of June 30, 2015.

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

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
District's proportionate share of the net pension liability	\$52,193,253	\$37,574,096	\$25,211,418

Note 9 - Post Employment Benefits

School Employees Retirement System

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

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

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required basic benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. For fiscal year 2016, 0.00 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 2016, this amount was \$23,000. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5

Southwest Local School District
Notes to the Basic Financial Statements
For The Fiscal Year Ended June 30, 2016

percent of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2015, the District's surcharge obligation was \$53,621.

The District's contributions for health care for the fiscal years ended June 30, 2016, 2015, and 2014 were \$0, \$80,859, and \$59,705, respectively. For fiscal year 2015, 80 percent has been contributed, with the balance being reported as accrued wages and benefits. The full amount has been contributed for fiscal years 2016 and 2014.

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. The District's contributions for health care for the fiscal years ended June 30, 2016, 2015, and 2014 were \$0, \$0, and \$140,678, respectively. The full amount has been contributed for fiscal years 2016, 2015, and 2014.

Note 10 – Contingent Liabilities

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 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 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 or June 30, 2016 Foundation funding for the District; therefore, the financial statement impact is not determinable at this time. ODE and management believe this will result in either a receivable to or liability of the District.

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 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.

Southwest Local School District
Notes to the Basic Financial Statements
For The Fiscal Year Ended June 30, 2016

However, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the District as of June 30, 2016.

Litigation

The District's attorney estimates that all other potential claims against the District not covered by insurance resulting from all other litigation would not materially affect the financial statements of the District.

Note 11 – Jointly Governed Organizations

Hamilton/Clermont Cooperative Information Technology Center (H/CC) - The Hamilton/Clermont Cooperative Information Technology Center, formerly known as H/CCA is a distinct political subdivision of the State of Ohio operated under the direction of a Board consisting of one representative from each of the twenty-four participating school districts' elected boards, which possesses its own budgeting and taxing authority. To obtain financial information write to the Hamilton Clermont Cooperative Information Technology Center, Tom Collins, Executive Director, 7615 Harrison Avenue, Cincinnati, Ohio 45231.

Great Oaks Career Campuses - Great Oaks Career Campuses is a distinct political subdivision of the State of Ohio operated under the direction of a Board consisting of thirty-five members representing thirty-six affiliated school districts, which possesses its own budgeting and taxing authority. To obtain financial information, write to the Great Oaks Career Campuses, Robert Giuffré, who serves as Chief Financial Officer, at 3254 East Kemper Road, Cincinnati, Ohio 45241.

Note 12 – Risk Management

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 the fiscal year, the District contracted with Indiana Insurance for fleet and liability insurance and Inland Marine coverage for property insurance.

Coverages provided by Indiana Insurance are as follows:

Building and Contents-replacement cost (\$10,000 deductible)	\$80,296,200
Inland Marine Coverage (\$1,000 deductible)	
Musical Instruments (\$250 deductible)	50,650
Lawn Equipment (\$500 deductible)	7,000
Automobile Liability (\$1,000 deductible)	1,000,000
Uninsured Motorists (\$1,000 deductible)	1,000,000
General Liability	
Per occurrence	1,000,000
Aggregate	2,000,000
Umbrella Liability	10,000,000

Settled claims have not exceeded this commercial coverage in any of the past three years.

**Southwest Local School District
Notes to the Basic Financial Statements
For The Fiscal Year Ended June 30, 2016**

Note 13 – Set-Asides

The District is required by State statute to annually set aside in the general fund an amount based on a statutory formula for 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.

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

	Capital Acquisition
Set-aside Reserve Balance as of June 30, 2015	\$0
Current Year Set-aside Requirement	626,313
Qualified Disbursements	<u>(1,350,400)</u>
Set-aside Reserve Balance as of June 30, 2016	<u><u>(\$724,087)</u></u>
Restricted Cash as of June 30, 2016	<u><u>\$0</u></u>

Expenditures for capital activity during the year totaled \$1,350,400 above, which exceeded the required set-aside and the reserve balance. Although the District had qualifying disbursements during the year that reduced the Capital Acquisition set-aside amounts to below zero, these extra amounts may not be used to reduce the set-aside requirements of future years. Negative amounts are therefore not presented as being carried forward to the next fiscal year.

Note 14 - Interfund Transactions

Interfund transactions at fiscal year end, consisted of the following individual fund transfers in and out:

	Transfers	
	In	Out
General Fund	<u>\$0</u>	<u>\$211,677</u>
Debt Service Fund	211,677	0
Other Governmental Funds	<u>0</u>	<u>0</u>
Total All Funds	<u><u>\$211,677</u></u>	<u><u>\$211,677</u></u>

Interfund balances/transfers are used to move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them and unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations; to segregate money for anticipated capital projects; to provide additional resources for current operations or debt service; and to return money to the fund from which it was originally provided once a project is completed.

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Southwest Local School District
Notes to the Basic Financial Statements
For The Fiscal Year Ended June 30, 2016

Note 15 – Accountability

Accountability

The following funds had a deficit in fund balance:

	<u>Deficit</u>
Other Governmental Funds:	
Title VI-B	\$92,656
Title I	83,143
Improving Teacher Quality	14,972

The deficit in fund balance was due to accruals in GAAP. The general fund is liable for any deficit in these funds and will provide operating transfers when cash is required not when accruals occur.

Note 16 – Fund Balances

Fund balance is 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 the government funds. The constraints placed on fund balance for the major governmental funds and all other governmental funds are presented below:

<u>Fund Balances</u>	<u>General</u>	<u>Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total</u>
Nonspendable:				
Prepaid	\$25,851	\$0	\$3,062	\$28,913
Total Nonspendable	<u>25,851</u>	<u>0</u>	<u>3,062</u>	<u>28,913</u>
Restricted for:				
Other Grants	0	0	29,634	29,634
Student Activities	0	0	57,937	57,937
Auxiliary Services	0	0	40,921	40,921
Vocational Education	0	0	738	738
Food Service	0	0	212,564	212,564
Debt Service	0	4,005,174	0	4,005,174
Building	0	0	7	7
Permanent Improvement	0	0	30,359	30,359
Total Restricted	<u>0</u>	<u>4,005,174</u>	<u>372,160</u>	<u>4,377,334</u>
Assigned to:				
Encumbrances	317,141	0	0	317,141
Public School	77,541	0	0	77,541
Total Assigned	<u>394,682</u>	<u>0</u>	<u>0</u>	<u>394,682</u>
Unassigned (Deficit)	<u>9,236,206</u>	<u>0</u>	<u>(193,114)</u>	<u>9,043,092</u>
Total Fund Balance	<u>\$9,656,739</u>	<u>4,005,174</u>	<u>\$182,108</u>	<u>\$13,844,021</u>

Southwest Local School District
Notes to the Basic Financial Statements
For The Fiscal Year Ended June 30, 2016

Note 17 – Implementation of New Accounting Principles

For the fiscal year ended June 30, 2016, the District has 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. These changes were incorporated in the District's fiscal year 2016 note disclosures; however, there was no effect on beginning net position/fund balance.

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.

For Fiscal year 2016, the School District has implemented GASB Statement No. 79, "Certain External Investment Pools and Pool Participants."

GASB Statement No. 79 establishes accounting and financial reporting standards for qualifying external investment pools that elect to measure for financial reporting purposes all of their investments at amortized cost. This Statement provides accounting and financial reporting guidance and also establishes additional note disclosure requirements for governments that participate in those pools. The School Districts participate in STAR Ohio which implemented GASB Statement No. 79 for fiscal year 2016. The School District incorporated the corresponding GASB 79 guidance into their fiscal year 2016 financial statements; however, there was no effect on beginning net position/fund balance.

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REQUIRED SUPPLEMENTARY INFORMATION



Southwest Local School District
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual (Non-GAAP Budgetary Basis)
For the Fiscal Year Ended June 30, 2016

	General Fund			
	Original Budget	Final Budget	Actual	Variance from Final Budget
Revenues:				
Taxes	\$14,362,878	\$14,362,878	\$14,617,075	\$254,197
Revenue in lieu of taxes	221,986	221,986	225,915	3,929
Tuition and Fees	471,560	471,560	479,906	8,346
Investment Earnings	39,901	39,901	40,607	706
Intergovernmental	15,784,576	15,784,576	16,063,934	279,358
Extracurricular Activities	55,864	55,864	56,853	989
Charges for Services	0	0	0	0
Other Revenues	64,938	64,938	66,087	1,149
Total Revenues	31,001,703	31,001,703	31,550,377	548,674
Expenditures:				
Current:				
Instruction:				
Regular	16,071,271	16,071,271	15,266,024	805,247
Special	4,555,682	4,555,682	4,327,421	228,261
Vocational	2,223	2,223	2,112	111
Adult/Continuing	11,601	11,611	11,020	591
E6	0	0	0	0
Other	798,012	798,012	758,028	39,984
Support Services:				
Pupil	1,823,837	1,823,837	1,732,454	91,383
Instructional Staff	330,022	330,022	313,486	16,536
General Administration	45,494	45,494	43,215	2,279
School Administration	2,726,369	2,726,369	2,589,765	136,604
Fiscal	1,003,524	1,003,524	953,243	50,281
Business	0	0	0	0
Operations and Maintenance	2,610,969	2,610,969	2,480,147	130,822
Pupil Transportation	1,621,702	1,621,702	1,540,447	81,255
Central	73,233	73,233	69,564	3,669
E5	0	0	0	0
E4	0	0	0	0
Operation of Non-Instructional Services	171	171	162	9
Extracurricular Activities	600,948	600,948	570,838	30,110
E3	0	0	0	0
E2	0	0	0	0
Capital Outlay	526	526	500	26
Debt Service:				
Principal Retirement	0	0	0	0
Interest and Fiscal Charges	0	0	0	0
E1	0	0	0	0
Total Expenditures	32,275,584	32,275,594	30,658,426	1,617,168
Excess of Revenues Over (Under) Expenditures	(1,273,881)	(1,273,891)	891,951	2,165,842
Other financing sources (uses):				
Proceeds of Capital Leases	0	0	0	0
Proceeds from Sale of Capital Assets	0	0	0	0
Proceeds of Long-Term Capital-Related Debt	0	0	0	0
Proceeds of Short-Term Notes	0	0	0	0
Advances In	18,296	18,296	18,620	324
Advances (Out)	(6,315)	(6,315)	(5,999)	316
Issuance of Notes	0	0	0	0
O1	0	0	0	0
Transfers In	0	0	0	0
Transfers (Out)	(222,842)	(222,842)	(211,677)	11,165
Total Other Financing Sources (Uses)	(210,861)	(210,861)	(199,056)	11,805
Net Change in Fund Balance	(1,484,742)	(1,484,752)	692,895	2,177,647
Fund Balance Beginning of Year (includes prior year encumbrances appropriated)	6,532,041	6,532,041	6,532,041	0
Fund Balance End of Year	\$5,047,299	\$5,047,289	\$7,224,936	\$2,177,647

See accompanying notes to the required supplementary information.

Southwest Local School District
Notes to the Required Supplementary Information
For The Year Ended June 30, 2016

Note 1 – Budgetary Process

All funds, except agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the appropriations resolution and the certificate of estimated resources which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amount that the Board of Education may appropriate. The appropriation resolution is the Board's authorization to spend resources and sets annual limits on expenditures plus encumbrances at the level of control selected by the Board. The legal level of control has been established by the Board at the fund level. Any budgetary modifications at this level may only be made by resolution of the Board.

The certificate of estimated resources may be amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The amounts reported as the original budgeted amounts on the budgetary statements reflect the amounts on the certificate of estimated resources when the original appropriations were adopted. The amounts reported as the final budgeted amounts on the budgetary statements reflect the amounts on the final amended certificate of estimated resources issued during the fiscal year 2016.

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

While the District is 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, disbursements and encumbrances. The Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual (Non-GAAP Budgetary Basis) presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and GAAP basis are as follows:

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures for all funds (budget basis) rather than as assigned to a fund balance for governmental fund types and expendable trust funds (GAAP basis).
4. Advances in and advances out are operating transactions (budget basis) as opposed to balance sheet transactions.
5. Some funds are reported as part of the general fund (GAAP basis) as opposed to the general fund being reported alone (budget basis).

Southwest Local School District
Notes to the Required Supplementary Information
For The Year Ended June 30, 2016

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements for the general fund.

Net Change in Fund Balance

	<u>General</u>
GAAP Basis	\$515,075
Revenue Accruals	442,201
Expenditure Accruals	15,553
Advances (In)	18,620
Advances (Out)	(5,999)
Encumbrances	(322,363)
Funds Budgeted Elsewhere	29,808
Budget Basis	<u><u>\$692,895</u></u>

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Southwest Local School District
 Required Supplementary Information
 Schedule of the District's Proportionate Share
 of the Net Pension Liability
 State Teachers Retirement System of Ohio
 Last Three Fiscal Years (1)

	2015	2014	2013
District's Proportion of the Net Pension Liability	0.13595540%	0.13816082%	0.13816082%
District's Proportionate Share of the Net Pension Liability	\$37,574,096	\$33,605,493	\$39,923,138
District's Covered-Employee Payroll	\$14,310,686	\$15,202,085	\$14,685,943
District's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	252.40%	226.80%	271.85%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	72.10%	74.70%	69.30%

(1) - Information prior to 2013 is not available

Southwest Local School District
 Required Supplementary Information
 Schedule of the District's Proportionate Share
 of the Net Pension Liability
 School Employees Retirement System of Ohio
 Last Three Fiscal Years (1)

	2015	2014	2013
District's Proportion of the Net Pension Liability	0.10663530%	0.10908800%	0.10908800%
District's Proportionate Share of the Net Pension Liability	\$6,084,714	\$5,520,882	\$6,489,060
District's Covered-Employee Payroll	\$3,446,495	\$3,201,912	\$3,032,916
District's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	200.53%	173.18%	213.95%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	69.16%	71.70%	65.30%

(1) - Information prior to 2013 is not available

Southwest Local School District
 Required Supplementary Information
 Schedule of District Contributions
 State Teachers Retirement System of Ohio
 Last Ten Fiscal Years

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Contractually Required Contribution	\$2,049,252	\$2,003,496	\$1,976,271	\$1,963,380	\$2,110,680	\$2,209,896	\$2,216,292	\$2,207,844	\$2,163,516	\$2,212,608
Contributions in Relation to the Contractually Required Contribution	(2,049,252)	(2,003,496)	(1,976,271)	(1,963,380)	(2,110,680)	(2,209,896)	(2,216,292)	(2,207,844)	(2,163,516)	(2,212,608)
Contribution Deficiency (Excess)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
District Covered-Employee Payroll	\$14,637,514	\$14,310,686	\$15,202,085	\$14,685,943	\$14,956,717	\$16,016,221	\$15,944,840	\$16,373,564	\$15,573,718	\$15,593,627
Contributions as a Percentage of Covered-Employee Payroll	14.00%	14.00%	13.00%	13.37%	14.11%	13.80%	13.90%	13.48%	13.89%	14.19%

Southwest Local School District
 Required Supplementary Information
 Schedule of District Contributions
 School Employees Retirement System of Ohio
 Last Ten Fiscal Years

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Contractually Required Contribution	\$485,760	\$454,248	\$443,785	\$472,440	\$504,648	\$574,654	\$533,124	\$537,012	\$518,880	\$542,724
Contributions in Relation to the Contractually Required Contribution	(485,760)	(454,248)	(443,785)	(472,440)	(504,648)	(574,654)	(533,124)	(537,012)	(518,880)	(542,724)
Contribution Deficiency (Excess)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
District Covered-Employee Payroll	\$3,469,714	\$3,446,495	\$3,201,912	\$3,032,916	\$3,410,568	\$3,919,501	\$3,741,477	\$3,885,210	\$3,723,442	\$3,706,485
Contributions as a Percentage of Covered-Employee Payroll	14.00%	13.18%	13.86%	15.58%	14.80%	14.66%	14.25%	13.82%	13.94%	14.64%

SOUTHWEST LOCAL SCHOOL DISTRICT

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

Federal Grant/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Disbursements	Non-Cash Disbursements
U.S. DEPARTMENT OF AGRICULTURE				
Passed Through Ohio Department of Education:				
Nutrition Cluster:				
School Breakfast Program	3L70	10.553	\$154,909	\$0
National School Lunch Program	3L60	10.555	<u>561,438</u>	<u>107,647</u>
Total Nutrition Cluster			<u>716,347</u>	<u>107,647</u>
Total U.S. Department of Agriculture			<u>716,347</u>	<u>107,647</u>
U.S. DEPARTMENT OF EDUCATION				
Passed Through Ohio Department of Education:				
Special Education Cluster:				
Special Education-Grants to States	3M20	84.027	829,398	0
Special Education-Preschool Grants	3C50	84.173	<u>18,621</u>	<u>0</u>
Total Special Education Cluster			<u>848,019</u>	<u>0</u>
Improving Teacher Quality	3Y60	84.367	98,959	0
Title I Grants to Local Educational Agencies	3M00	84.010	744,121	0
Passed Through Great Oaks Career Campuses				
Career & Technical Education Basic Grants to States	GOCC	84.048	<u>7,000</u>	<u>0</u>
Total Department of Education			<u>1,698,099</u>	<u>0</u>
Total Federal Assistance			<u><u>\$2,414,446</u></u>	<u><u>\$107,647</u></u>

SOUTHWEST LOCAL SCHOOL DISTRICT

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying schedule of expenditures of federal awards (the "Schedule") includes federal grant activity of the District and is presented on the cash basis of accounting. The information in this schedule is presented in accordance with the requirements of 2 CFR 200, Subpart F. The District did not elect to not use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

NOTE B - CHILD NUTRITION CLUSTER

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

NOTE C - FOOD DONATION PROGRAM

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



Dave Yost • Auditor of State

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

Southwest Local School District
Hamilton County
230 South Elm Street
Harrison, Ohio 45030

To the Board of Education:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Southwest Local School District, Hamilton County, (the District) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated February 28, 2017.

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 opinion 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 no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

Corporate Centre of Blue Ash, 11117 Kenwood Road, Blue Ash, Ohio 45242
Phone: 513-361-8550 or 800-368-7419 Fax: 513-361-8577

www.ohioauditor.gov

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.

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

Dave Yost
Auditor of State

Columbus, Ohio

February 28, 2017



Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO THE MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

Southwest Local School District
Hamilton County
230 South Elm Street
Harrison, Ohio 45030

To the Board of Education:

Report on Compliance for the Major Federal Program

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

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to opine on the District's compliance for the District's major federal program 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 the District's major program. However, our audit does not provide a legal determination of the District's compliance.

Opinion on the Major Federal Program

In our opinion, the Southwest Local School District complied, in all material respects with the compliance requirements referred to above that could directly and materially affect its major federal program for the year ended June 30, 2016.

Corporate Centre of Blue Ash, 11117 Kenwood Road, Blue Ash, Ohio 45242

Phone: 513-361-8550 or 800-368-7419 Fax: 513-361-8577

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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 over compliance tests and the results of this testing based on Uniform Guidance requirements. Accordingly, this report is not suitable for any other purpose.



Dave Yost
Auditor of State

Columbus, Ohio

February 28, 2017

**SOUTHWEST LOCAL SCHOOL DISTRICT
HAMILTON COUNTY**

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

1. SUMMARY OF AUDITOR'S RESULTS

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unmodified
<i>(d)(1)(ii)</i>	Were there any material weaknesses in internal control reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(iii)</i>	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
<i>(d)(1)(iv)</i>	Were there any material weaknesses in internal control reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any significant deficiencies in internal control reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unmodified
<i>(d)(1)(vi)</i>	Are there any reportable findings under 2 CFR § 200.516(a)?	No
<i>(d)(1)(vii)</i>	Major Programs (list):	Nutrition Cluster; 10.553, 10.555
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A/B Programs	Type A: > \$ 750,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee under 2 CFR §200.520?	Yes

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

None.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None.

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Dave Yost • Auditor of State

SOUTHWEST LOCAL SCHOOL DISTRICT

HAMILTON 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 16, 2017**