



Dave Yost • Auditor of State



**NORTHERN LOCAL SCHOOL DISTRICT  
PERRY COUNTY  
JUNE 30, 2017**

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NORTHERN LOCAL SCHOOL DISTRICT  
PERRY COUNTY  
JUNE 30, 2017

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# Dave Yost • Auditor of State

## INDEPENDENT AUDITOR'S REPORT

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

To the Board of Education:

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

We have audited the accompanying modified cash basis financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Northern Local School District, Perry County, Ohio (the District), as of and for the year ended June 30, 2017 and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

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

Management is responsible for preparing and fairly presenting these financial statements in accordance with the modified cash accounting basis Note 2 describes. This responsibility includes determining that the modified cash accounting basis is acceptable for the circumstances. Management is also responsible for designing, implementing and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

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

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

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the District's internal control. Accordingly, we express no such 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 modified cash financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Northern Local School District, Perry County, Ohio, as of June 30, 2017, and the respective changes in modified cash financial position and the budgetary comparison for the General Fund thereof for the year then ended in accordance with the accounting basis described in Note 2.

***Accounting Basis***

Ohio Administrative Code § 117-2-03(B) requires the District to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America. We draw attention to Note 2 of the financial statements, which describes the basis applied to these statements. The financial statements are prepared on the modified cash basis of accounting, which is a basis other than generally accepted accounting principles. We did not modify our opinion regarding this matter.

***Other Matters***

*Supplemental Information*

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

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

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

*Other Information*

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated March 22, 2018, 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 "Y" and "O".

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

March 22, 2018

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**Northern Local School District, Ohio**  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2017  
(Unaudited)

As management of the Northern Local District (the District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the Northern Local District for the fiscal year ended June 30, 2017. We encourage readers to consider the information presented here in conjunction with the financial statements and the notes to the basic financial statements.

### **Financial Highlights**

Key financial highlights for the fiscal year 2017 are as follows:

- Net position of governmental activities increased \$431,811.
- General receipts, consisting primarily of property taxes, state foundation receipts, and loan proceeds, totaled approximately \$24.4 million, or 85 percent of total receipts, while program receipts, consisting of charges for services and operating grants and contributions, accounted for \$4.2 million, or 15 percent of total receipts.
- The District had \$28.2 million in cash disbursements during the fiscal year. The net cost of providing services (total cash disbursements less program receipts), totaling \$24.0 million, was funded with general receipts.

### **Using this Annual Financial Report**

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

The Statement of Net Position and Statement of Activities provide information about the activities of the whole District, and present an aggregate view of the District's finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the District's most significant funds with all other non-major funds presented in total in one column.

**Northern Local School District, Ohio**  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2017  
(Unaudited)

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

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

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

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

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

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

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

*Fund Financial Statements*

The analysis of the District's major funds begins on page 9. Fund financial reports provide detailed information about the District's major funds. The District uses many funds to account for a multiple of financial transactions. However, these fund financial statements focus on the District's most significant funds. The District's major governmental funds are the general fund, bond retirement fund, and the House Bill 264 – Energy Conservation Fund.

***Governmental Funds*** Most of the District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at fiscal year-end available for spending in future periods. These funds are reported using the modified cash basis of accounting. The governmental fund statements provide a detailed short-term view of the District's general governmental operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs.

**Northern Local School District, Ohio**  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2017  
(Unaudited)

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

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

**The District as a Whole**

Table 1 provides a summary of the District's net position for 2017 compared to 2016 on a modified cash basis:

Table 1  
**Net Position**

	Governmental Activities	
	June 30, 2017	June 30, 2016
<b>Assets</b>		
Current Assets	\$ 2,670,152	\$ 2,238,341
Total	\$ 2,670,152	\$ 2,238,341
<b>Net Position</b>		
Restricted for:		
Capital Projects	\$ 1,353,504	\$ 1,666
Debt Service	656,068	1,028,188
Food Service	67,669	23,609
Extracurricular Activities	145,870	119,683
State and Federal Grants	7,389	16,182
Recreation	70	70
Unrestricted	439,582	1,048,943
Total Net Position	\$ 2,670,152	\$ 2,238,341

Net Position Restricted for Capital Projects increased significantly in comparison with the prior fiscal year. This increase is primarily the result of the District receiving loan proceeds for the acquisition and installment of energy conservation measures for five District school buildings.

Net Position Restricted for Debt Service decreased significantly in comparison with the prior fiscal year. This decrease is primarily the result of lease payments made for new buses.

**Northern Local School District, Ohio**  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2017  
(Unaudited)

Table 2 shows the changes in net position for the fiscal year ended June 30, 2017 in comparison to June 30, 2016.

Table 2  
Changes in Net Position

	Governmental Activities 2017	Governmental Activities 2016
	<u>2017</u>	<u>2016</u>
Cash Receipts:		
Program Cash Receipts:		
Charges for Services and Sales	\$ 2,123,081	\$ 1,889,690
Operating Grants and Contributions	<u>2,085,990</u>	<u>2,214,119</u>
Total Program Cash Receipts	<u>4,209,071</u>	<u>4,103,809</u>
General Cash Receipts:		
Property Taxes	9,232,872	8,647,650
Grants and Entitlements	13,028,238	13,195,875
Loan Proceeds	2,021,857	-
Investment Earnings	216	260
Miscellaneous	<u>119,234</u>	<u>224,472</u>
Total General Cash Receipts	<u>24,402,417</u>	<u>22,068,257</u>
Total Cash Receipts	<u>28,611,488</u>	<u>26,172,066</u>
Program Cash Disbursements:		
Instruction	15,283,262	14,429,394
Support Services	9,193,677	8,911,408
Operation of Food Service	1,112,397	1,098,018
Community Services	113,829	78,752
Intergovernmental	-	26,627
Extracurricular Activities	849,090	809,026
Capital Outlay	668,497	2,000
Debt Service:		
Principal Retirement	752,674	798,300
Interest and Fiscal Charges	<u>206,251</u>	<u>177,475</u>
Total Program Cash Disbursements	<u>28,179,677</u>	<u>26,331,000</u>
Change in Net Position	431,811	(158,934)
Net Position at Beginning of Year	<u>2,238,341</u>	<u>2,397,275</u>
Net Position at End of Year	<u>\$ 2,670,152</u>	<u>\$ 2,238,341</u>

Loan Proceeds increased significantly in comparison with the prior fiscal year. This increase is primarily due to the District receiving loan proceeds for the acquisition and installment of energy conservation measures for five District school buildings.

**Northern Local School District, Ohio**  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2017  
(Unaudited)

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

Table 3  
Governmental Activities

	Total Cost of Services 2017	Net Cost of Services 2017	Total Cost of Services 2016	Net Cost of Services 2016
Cash Disbursements				
Instruction	\$15,283,262	\$13,075,519	\$14,429,394	\$12,302,709
Support Services	9,193,677	8,964,483	8,911,408	8,683,091
Operation of Food Service	1,112,397	(511)	1,098,018	(2,011)
Community Services	113,829	12,025	78,752	(10,743)
Intergovernmental	-	-	26,627	(17,786)
Extracurricular Activities	849,090	291,668	809,026	294,156
Capital Outlay	668,497	668,497	2,000	2,000
Debt Service:				
Principal Retirement	752,674	752,674	798,300	798,300
Interest and Fiscal Charges	206,251	206,251	177,475	177,475
<b>Total Cash Disbursements</b>	<b><u>\$28,179,677</u></b>	<b><u>\$23,970,606</u></b>	<b><u>\$26,331,000</u></b>	<b><u>\$22,227,191</u></b>

The dependence upon tax receipts and unrestricted state entitlements is apparent as approximately 86 percent of instruction activities are supported through taxes and other general receipts.

Approximately 66 percent of extracurricular activities disbursements are covered by program cash receipts. This is primarily a result of athletic fees, ticket sales, gate receipts and contributions.

**The District Funds**

The District's funds are accounted for using the modified cash basis of accounting. The District's governmental funds had total cash receipts, including other financing sources, of approximately \$28.7 million and cash disbursements of \$27.4 million. The excess of cash disbursements over cash receipts for the governmental funds totaled approximately \$1.3 million.

**Northern Local School District, Ohio**  
 Management's Discussion and Analysis  
 For the Fiscal Year Ended June 30, 2017  
 (Unaudited)

The schedule below indicates the cash fund balances and the total change in fund balances as of June 30, 2017 for all of the major and non-major governmental funds.

Table 4  
 Fund Balance Analysis

	<u>June 30, 2017</u>	<u>June 30, 2016</u>	<u>Increase (Decrease)</u>
Major Funds:			
General	\$ 1,477,020	\$ 1,383,579	\$ 93,441
Bond Retirement	656,068	1,028,188	(372,120)
House Bill 264 – Energy Conservation	1,353,360	-	1,353,360
Other Governmental funds	<u>221,142</u>	<u>(35,179)</u>	<u>256,321</u>
Total	<u>\$ 3,707,590</u>	<u>\$ 2,376,588</u>	<u>\$ 1,331,002</u>

The fund balance of the General Fund increased slightly during the fiscal year. Total receipts and total disbursements were both consistent in comparison with the prior fiscal year.

The fund balance of the Bond Retirement Fund decreased significantly during the fiscal year. This decrease is primarily the result of principal payments made during the fiscal year.

The fund balance of the House Bill 264 – Energy Conservation Fund increased significantly during the fiscal year. This increase is primarily the result of the District receiving loan proceeds for the acquisition and installment of energy conservation measures for five District school buildings.

***General Fund Budgeting Highlights***

The District's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, cash disbursements, and encumbrances. The most significant budgeted fund is the general fund. During the course of fiscal year 2017, the District amended its general fund budget. The District closely monitors its resources and uses and if necessary, modifies the budgetary documents on a timely basis.

The District's final estimated receipts exceeded original estimated receipts by \$593,307, primarily as a result of an increase in the estimate of property tax receipts. The variance between final estimated receipts and actual receipts was insignificant.

The District's final appropriations exceeded the original appropriations by \$561,907. This increase was primarily as a result of an increase in the estimate for regular and special instruction expenses. The variance between final appropriations and actual budgetary expenditures was insignificant.

**Northern Local School District, Ohio**  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2017  
(Unaudited)

**Debt Administration**

At June 30, 2017, the District had \$6,931,854 in debt outstanding, which is a \$1.4 million increase in debt from the prior period.

Table 5  
Outstanding Debt at Fiscal Year End

	Principal Outstanding 6/30/2017	Principal Outstanding 6/30/2016
<b>Governmental Activities</b>		
Construction & Improvement		
Refunding Bonds	\$ 2,439,997	\$ 2,794,997
Mature 10/2023; 1.00%-3.50%		
Permanent Improvement		
Tax Anticipation Notes	845,000	1,040,000
Mature 12/2020; 1.00%-4.50%		
Energy Conservation Bonds		
Mature 12/2028; 1.00%-4.00%	1,625,000	1,705,947
House Bill 264 Energy Conservation Note		
Mature 12/2032; 2.87%	2,021,857	-
	<u>\$ 6,931,854</u>	<u>\$ 5,540,944</u>

**Economic Factors**

The District's current five-year forecast is projecting sufficient receipts for fiscal year 2018 through 2021 with positive ending cash balances of \$1,933,706, \$2,561,295, \$2,735,229 and \$2,904,714, respectively.

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

**Northern Local School District, Ohio**  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2017  
(Unaudited)

**Contacting the District's Financial Management**

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



**NORTHERN LOCAL SCHOOL DISTRICT  
PERRY COUNTY**

**STATEMENT OF NET POSITION - MODIFIED CASH BASIS  
JUNE 30, 2017**

	<u>Governmental Activities</u>
<b>Assets</b>	
Equity in Pooled Cash and Investments	\$ 2,670,152
Total Assets	<u>\$ 2,670,152</u>
<b>Net Position</b>	
Restricted for:	
Capital Projects	\$ 1,353,504
Debt Service	656,068
Food Service	67,669
Extracurricular Activities	145,870
State and Federal Grants	7,389
Recreation	70
Unrestricted	439,582
Total Net Position	<u>\$ 2,670,152</u>

See accompanying notes to the basic financial statements.

**NORTHERN LOCAL SCHOOL DISTRICT  
PERRY COUNTY**

**STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

		Program Receipts		Net (Disbursements)/ Receipts and Changes in Net Position
	Cash Disbursements	Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities
Governmental Activities				
Instruction:				
Regular	\$ 10,315,139	\$ 803,137	\$ 193,732	\$ (9,318,270)
Special	3,382,442	263,721	819,748	(2,298,973)
Vocational	281,777	22,142	-	(259,635)
Other	1,303,904	105,263	-	(1,198,641)
Support Services:				
Pupils	755,455	-	51,328	(704,127)
Instructional Staff	882,821	-	88,708	(794,113)
Board of Education	123,593	-	-	(123,593)
Administration	1,863,528	-	58,027	(1,805,501)
Fiscal Services	855,454	-	-	(855,454)
Operation and Maintenance	2,879,985	-	-	(2,879,985)
Pupil Transportation	1,627,104	-	22,131	(1,604,973)
Central	205,737	-	9,000	(196,737)
Food Services Operations	1,112,397	371,396	741,512	511
Community Services	113,829	-	101,804	(12,025)
Extracurricular Activities	849,090	557,422	-	(291,668)
Capital Outlay	668,497	-	-	(668,497)
Debt Service:				
Principal Retirement	752,674	-	-	(752,674)
Interest and Fiscal Charges	206,251	-	-	(206,251)
Total Governmental Activities:	\$ 28,179,677	\$ 2,123,081	\$ 2,085,990	(23,970,606)
General Receipts				
Property Taxes Levied for:				
				7,855,871
				849,727
				527,274
				13,028,238
				2,021,857
				216
				119,234
Total General Receipts				24,402,417
Change in Net Position				431,811
Net Position Beginning of Year				2,238,341
Net Position End of Year				\$ 2,670,152

See accompanying notes to the basic financial statements.

**NORTHERN LOCAL SCHOOL DISTRICT  
PERRY COUNTY**

**STATEMENT OF MODIFIED CASH BASIS ASSETS AND FUND BALANCES  
GOVERNMENTAL FUNDS  
JUNE 30, 2017**

	General Fund	Bond Retirement Fund	House Bill 264 - Energy Conservation Fund	Other Governmental Funds	Total Governmental Funds
<b>Assets:</b>					
Equity in Pooled Cash and Investments	\$ 1,477,020	\$ 656,068	\$ 1,353,360	\$ 221,142	\$ 3,707,590
<b>Total Assets</b>	<b>\$ 1,477,020</b>	<b>\$ 656,068</b>	<b>\$ 1,353,360</b>	<b>\$ 221,142</b>	<b>\$ 3,707,590</b>
<b>Fund Balances:</b>					
Restricted for:					
Capital Projects	\$ -	\$ -	\$ 1,353,360	\$ 144	\$ 1,353,504
Debt Service	-	656,068	-	-	656,068
Food Service	-	-	-	67,669	67,669
Extracurricular Activities	-	-	-	145,870	145,870
State and Federal Grants	-	-	-	7,389	7,389
Recreation	-	-	-	70	70
Assigned for:					
Public School Support	41,398	-	-	-	41,398
Instruction	50,230	-	-	-	50,230
Support Services	152,920	-	-	-	152,920
Future Appropriations	374,480	-	-	-	374,480
Unassigned:	857,992	-	-	-	857,992
<b>Total Fund Balances</b>	<b>\$ 1,477,020</b>	<b>\$ 656,068</b>	<b>\$ 1,353,360</b>	<b>\$ 221,142</b>	<b>\$ 3,707,590</b>

See accompanying notes to the basic financial statements.

**NORTHERN LOCAL SCHOOL DISTRICT  
PERRY COUNTY**

**RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO  
NET POSITION OF GOVERNMENTAL ACTIVITIES  
JUNE 30, 2017**

<b>Total Governmental Fund Balances</b>	\$ 3,707,590
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*Amounts reported for governmental activities in the statement of net position  
are different because:*

Governmental activities' net position includes the internal service funds' equity in pooled cash and investments. The proprietary funds' net position includes these assets.	<u>(1,037,438)</u>
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<b>Net Position of Governmental Activities</b>	<u><u>\$ 2,670,152</u></u>
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**NORTHERN LOCAL SCHOOL DISTRICT  
PERRY COUNTY**

**STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS AND CHANGES IN  
MODIFIED CASH BASIS FUND BALANCES - GOVERNMENTAL FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

	General Fund	Bond Retirement Fund	House Bill 264 - Energy Conservation Fund	Other Governmental Funds	Total Governmental Funds
<b>Receipts:</b>					
Property Taxes	\$ 7,855,871	\$ 527,274	\$ -	\$ 849,727	\$ 9,232,872
Intergovernmental	12,891,841	63,108	-	2,159,279	15,114,228
Interest	216	-	-	-	216
Tuition and Fees	1,194,263	-	-	-	1,194,263
Extracurricular Activities	126,933	-	-	430,489	557,422
Charges for Services	-	-	-	371,396	371,396
Miscellaneous	77,032	-	-	-	77,032
Total Receipts	<u>22,146,156</u>	<u>590,382</u>	<u>-</u>	<u>3,810,891</u>	<u>26,547,429</u>
<b>Disbursements:</b>					
Current:					
Instruction:					
Regular	9,578,558	-	-	369,960	9,948,518
Special	2,570,617	-	-	696,113	3,266,730
Vocational	274,278	-	-	-	274,278
Other	1,303,904	-	-	-	1,303,904
Support services:					
Pupils	680,997	-	-	46,621	727,618
Instructional staff	789,708	-	-	72,213	861,921
Board of Education	123,593	-	-	-	123,593
Administration	1,742,805	3	-	46,063	1,788,871
Fiscal	806,491	14,974	-	22,320	843,785
Operation and Maintenance of Plant	2,177,025	-	-	649,455	2,826,480
Pupil Transportation	1,495,121	-	-	49,628	1,544,749
Central	196,737	-	-	9,000	205,737
Operation of Food Services	6,577	-	-	1,068,848	1,075,425
Community Services	-	-	-	109,044	109,044
Extracurricular Activities	433,785	-	-	415,305	849,090
Capital Outlay	-	-	668,497	-	668,497
Debt service:					
Principal Retirement	11,062	741,612	-	-	752,674
Interest and Fiscal Charges	338	205,913	-	-	206,251
Total Disbursements	<u>22,191,596</u>	<u>962,502</u>	<u>668,497</u>	<u>3,554,570</u>	<u>27,377,165</u>
Excess (Deficiency) of Receipts Over (Under) Disbursements	<u>(45,440)</u>	<u>(372,120)</u>	<u>(668,497)</u>	<u>256,321</u>	<u>(829,736)</u>
<b>Other Financing Sources (Uses):</b>					
Loan Proceeds	-	-	2,021,857	-	2,021,857
Insurance Proceeds	42,202	-	-	-	42,202
Advance In	96,679	-	-	-	96,679
Total Other Financing Sources (Uses)	<u>138,881</u>	<u>-</u>	<u>2,021,857</u>	<u>-</u>	<u>2,160,738</u>
Net Change in Fund Balances	93,441	(372,120)	1,353,360	256,321	1,331,002
Fund Balance, Beginning of Year	1,383,579	1,028,188	-	(35,179)	2,376,588
Fund Balance, End of Year	<u>\$ 1,477,020</u>	<u>\$ 656,068</u>	<u>\$ 1,353,360</u>	<u>\$ 221,142</u>	<u>\$ 3,707,590</u>

See accompanying notes to the basic financial statements.

**NOTHERN LOCAL SCHOOL DISTRICT  
PERRY COUNTY**

**RECONCILIATION OF THE STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND  
CHANGES IN MODIFIED CASH FUND BALANCES OF GOVERNMENTAL FUNDS TO THE  
STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

**Net Change in Fund Balances - Total Governmental Funds** \$ 1,331,002

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

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

(899,191)

**Change in Net Position of Governmental Activities**

\$ 431,811

**NORTHERN LOCAL SCHOOL DISTRICT  
PERRY COUNTY**

**STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)  
GENERAL FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

	Original Budget	Final Budget	Actual	Variance Over/(Under)
Receipts:				
Property Taxes	\$ 7,236,307	\$ 7,855,871	\$ 7,855,871	\$ -
Intergovernmental	13,037,699	12,891,841	12,891,841	-
Interest	260	210	216	6
Tuition and Fees	1,017,082	1,194,247	1,194,263	16
Miscellaneous	169,654	76,788	77,032	244
Total Receipts	<u>21,461,002</u>	<u>22,018,957</u>	<u>22,019,223</u>	<u>266</u>
Disbursements:				
Current:				
Instruction:				
Regular	9,272,721	9,589,649	9,588,969	680
Special	2,280,195	2,588,330	2,587,881	449
Vocational	297,955	275,974	275,974	-
Other	1,375,783	1,314,562	1,314,562	-
Support services:				
Pupils	667,599	702,283	694,726	7,557
Instructional staff	717,769	802,861	802,849	12
Board of Education	136,946	132,128	132,128	-
Administration	1,758,617	1,779,897	1,766,753	13,144
Fiscal	807,322	817,740	817,737	3
Operation and Maintenance of Plant	2,327,692	2,246,324	2,246,318	6
Pupil Transportation	1,540,215	1,519,551	1,519,548	3
Central	229,654	196,655	196,655	-
Operation of Food Services	6,020	6,577	6,577	-
Extracurricular Activities	305,555	315,419	315,418	1
Capital Outlay	2,000	-	-	-
Total Disbursements	<u>21,726,043</u>	<u>22,287,950</u>	<u>22,266,095</u>	<u>21,855</u>
Excess of Receipts Over Disbursements	<u>(265,041)</u>	<u>(268,993)</u>	<u>(246,872)</u>	<u>22,121</u>
Other Financing Sources (Uses):				
Sale of Assets	2,602	-	-	-
Insurance Proceeds	49,665	42,202	42,202	-
Advance In	51,262	96,679	96,679	-
Advance Out	(147,942)	(147,942)	-	147,942
Total Other Financing Sources (Uses)	<u>(44,413)</u>	<u>(9,061)</u>	<u>138,881</u>	<u>147,942</u>
Net Change in Fund Balance	(309,454)	(278,054)	(107,991)	170,063
Fund Balances at Beginning of Year	1,306,033	1,306,033	1,306,033	-
Prior Year Encumbrances Appropriated	34,431	34,431	34,431	-
Fund Balances at End of Year	<u>\$ 1,031,010</u>	<u>\$ 1,062,410</u>	<u>\$ 1,232,473</u>	<u>\$ 170,063</u>

See accompanying notes to the basic financial statements.

**NORTHERN LOCAL SCHOOL DISTRICT  
PERRY COUNTY**

**STATEMENT OF FUND NET POSITION - MODIFIED CASH BASIS  
PROPRIETARY FUND  
JUNE 30, 2017**

	<u>Governmental Activities</u> <u>Internal Service</u>
<b>Assets:</b>	
Equity in Pooled Cash and Investments	<u>\$ (1,037,438)</u>
Total Assets	<u><u>\$ (1,037,438)</u></u>
<b>Net Position:</b>	
Unrestricted	<u>\$ (1,037,438)</u>
Total Net Position	<u><u>\$ (1,037,438)</u></u>

See accompanying notes to the basic financial statements.



**NORTHERN LOCAL SCHOOL DISTRICT  
PERRY COUNTY**

**STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS  
AND CHANGES IN FUND NET POSITION - MODIFIED CASH BASIS  
PROPRIETARY FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

	Governmental Activities
	Internal Service
<b>Operating Receipts:</b>	
Charges for Services	\$ 4,239,552
Miscellaneous	436,091
Total Operating Receipts	4,675,643
<b>Operating Disbursements:</b>	
Claims	4,416,233
Administration	1,061,922
Total Operating Disbursements	5,478,155
Excess of Disbursements Over Receipts	(802,512)
<b>Nonoperating Disbursements:</b>	
Advances Out	(96,679)
Total Nonoperating Disbursements	(96,679)
Change in Net Position	(899,191)
Net Position at Beginning of Year	(138,247)
Net Position at End of Year	\$ (1,037,438)

See accompanying notes to the basic financial statements.

**NORTHERN LOCAL SCHOOL DISTRICT  
PERRY COUNTY**

**STATEMENT OF FIDUCIARY NET POSITION - MODIFIED CASH BASIS  
FIDUCIARY FUNDS  
JUNE 30, 2017**

	Private Purpose Trust	Agency
<b>Assets:</b>		
Equity in Pooled Cash and Investments	\$ 260,277	\$ 55,421
Total Assets	\$ 260,277	\$ 55,421
<b>Net Position</b>		
Held in Trust for Scholarships	\$ 260,277	\$ -
Held for Students Activity	-	55,421
Total Net Position	\$ 260,277	\$ 55,421

See accompanying notes to the basic financial statements.

**NORTHERN LOCAL SCHOOL DISTRICT  
PERRY COUNTY**

**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION -  
MODIFIED CASH BASIS  
FIDUCIARY FUNDS  
JUNE 30, 2017**

	Private Purpose Trust
<b>Additions</b>	
Contributions	\$ 45,211
Total Additions	45,211
<b>Deductions</b>	
Scholarship Awarded	31,070
Total Deductions	31,070
Change in Net Position	14,141
Net Position - Beginning of Year	246,136
Net Position - End of Year	\$ 260,277

See accompanying notes to the basic financial statements.

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**Northern Local School District**  
**Perry County**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2017*

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

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

The Northern Local School District of Perry County was established on June 10, 1968 by the State of Ohio as a public school system. The District is a consolidated school district made up from three original high schools in the area, Glenford, Somerset, and Thornville, combined now to be Sheridan High School. The District is located in three counties, Perry, Licking, and Fairfield, serving an area of approximately 173 square miles. The District is staffed by 243 certificated and non-certificated employees who provide services to 2,249 students and other community members. The District currently operates five instructional buildings, one administrative building, and one support service building.

*Reporting Entity*

The reporting entity is comprised of the primary government, component units, and other organizations that are included to insure that the financial statements of the District are not misleading. The primary government consists of all funds, departments, boards, and agencies that are not legally separate from the District. For the District, this includes general operations, food service and student related activities.

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

The District participates in three jointly governed organizations, and one insurance purchasing pools. These organizations are the Metropolitan Educational Technology Association (META), the Central Ohio Special Education Regional Resource Center, and the Ohio School Boards Association Workers Compensation Group Rating Plan. These organizations are presented in Notes 11 and 12 to the basic financial statements.

**Northern Local School District**  
**Perry County**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2017*

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

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

**A. Basis of Accounting**

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

As a result of the use of this modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements.

**B. Basis of Presentation**

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

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

**Northern Local School District**  
**Perry County**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2017*

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

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

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

**C. Fund Accounting**

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

**Governmental Funds** Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. The following is a description of the District's major governmental funds:

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

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

**House Bill 264 – Energy Conservation Fund** – used to account for the accumulation of resources for, and the payment of, the House Bill 264 Energy Conservation equipment and related note.

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

**Northern Local School District**  
**Perry County**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2017*

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

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

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

**D. Cash and Investments**

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

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

STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but has adopted Governmental Accounting Standards Board (GASB), Statement No. 79, "Certain External Investment Pools and Pool Participants." The 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 fiscal year 2017, 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 of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest receipts recorded by the District during fiscal year 2017 amounted to \$216, all of which was recorded in the General Fund.



**Northern Local School District**  
**Perry County**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2017*

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

***E. Budgetary Data***

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

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

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

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

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

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

***G. Capital Assets***

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

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

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

**Northern Local School District**  
**Perry County**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2017*

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

***I. Compensated Absences***

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

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

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

***K. Net Position***

Net position are recorded in conjunction with assets recorded by the District. Net position is reported as restricted when there are limitations imposed on their use either through enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

The District applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net position are available. None of the District's restricted net position are the result of enabling legislation.

***L. Interfund Activity***

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

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

**Northern Local School District**  
**Perry County**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2017*

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

***M. Fund Balances***

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

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

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

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

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

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

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

***O. Extraordinary and Special Items***

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

***P. Restricted Assets***

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

**Northern Local School District**  
**Perry County**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2017*

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

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

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

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

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

**S. 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.

**Note 3 – Compliance**

**A. Financial Statement Reporting**

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

**B. Negative Cash**

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

	<u>Amount</u>
Internal Service Fund	(\$1,037,438)

**Northern Local School District**  
**Perry County**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2017*

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**Note 4 - Deposits and Investments**

Monies held by the District are classified by State statute into three categories.

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

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

Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts including passbook accounts.

Interim monies held by the District can be deposited or invested in the following securities:

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

**Northern Local School District**  
**Perry County**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2017*

**Note 4 - Deposits and Investments (Continued)**

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. Investments may only be made through specified dealers and institutions.

An investment must mature within five years from the date of purchase, unless matched to a specific obligation or debt of the District, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions.

**Deposits** Custodial credit risk is the risk that, in the event of a bank failure, the District's deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the District.

At fiscal year-end, the carrying amount of all District deposits was \$1,626,110, including nonnegotiable certificates of deposit totaling \$90,000, and the bank balance was \$1,651,065. Of the District's bank balance, \$370,923 was covered by Federal Deposit Insurance (FDIC) and the remaining balance was exposed to custodial risk. Although all statutory requirement for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the District to a successful claim by the FDIC. In addition, the District held \$1,500 in petty cash at fiscal year-end.

The District has no deposit policy for custodial credit risk beyond the requirements of State statute. Although the securities were held by the pledging institutions' trust department and all statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the District to a successful claim by the FDIC.

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

At June 30, 2017, the District had the following investments:

	Value	Maturity in Years		Percent to Total
		Less than 1	1 to 3	
STAROhio	\$ 3,605	\$ 3,605	\$ -	0.27%
Money Market Accounts	1,354,635	1,354,635	-	99.73%
Total	<u>\$ 1,358,240</u>	<u>\$ 1,358,240</u>	<u>\$ -</u>	<u>100.00%</u>

**Northern Local School District**  
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**Note 4 - Deposits and Investments (Continued)**

**Interest Rate Risk** As a means of limiting its exposure to fair value losses arising from rising interest rates and according to state law, the District's investment policy limits investment portfolio maturities to five years or less.

**Credit Risk** The District currently has no policy in place regarding credit risk. The District's investments in STAR Ohio are rated AAAM by Standard & Poor's. The District's money market mutual funds are not rated.

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

**Note 5 - Property Taxes**

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

Property taxes include amounts levied against all real property, public utility property, and tangible personal (used in business) property located in the District. Real property tax receipts received in calendar year 2017 represent the collection of calendar year 2016 taxes. Real property taxes received in calendar year 2017 were levied after April 1, 2016, on the assessed values as of January 1, 2016, the lien date. Assessed values for real property taxes are established by State statute at thirty-five percent of appraised market value. Real property taxes are payable annually or semiannually.

If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax receipts received in calendar year 2017 represent the collection of calendar year 2016 taxes. Public utility real property taxes received in calendar year 2017 became a lien on December 31, 2015, were levied after April 1, 2016, and are collected with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

The District receives property taxes from Perry, Licking and Fairfield County. The County Auditors periodically advance to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2017, are available to finance fiscal year 2017 operations. The amount available to be advanced can vary based on the date the tax bills are sent.



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**Note 5 - Property Taxes (Continued)**

The assessed values upon which property taxes were collected are:

	2016 Second- Half Collections		2017 First- Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/ Residential and Other Real Estate	\$308,529,510	81.49%	\$309,273,266	79.86%
Public Utility Personal	70,086,110	18.51%	77,996,810	20.14%
<b>Total</b>	<b>\$378,615,620</b>	<b>100.00%</b>	<b>\$387,270,076</b>	<b>100.00%</b>
Full Tax rate per \$1,000 of assessed valuation	\$34.30		\$34.30	

**Note 6 - Risk Management**

**A. Property and Liability**

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2017, the District contracted with Indiana Insurance for property, builder's risk, liability, and fleet insurances.

Coverage provided is as follows:

Building and Contents-replacement cost (\$5,000 deductible)	\$96,237,165
Equipment (\$500 deductible)	2,141,208
Employee Dishonesty (\$5,000 deductible)	1,000,000
Fleet Insurance	1,000,000
Educational General Liability	
Per occurrence	1,000,000
Aggregate per year	2,000,000
Employee Benefits Liability (\$1,000 deductible)	
Per occurrence	1,000,000
Aggregate per year	3,000,000

Settled claims have not exceeded this commercial coverage in any of the past three fiscal years. There has been no significant reduction in insurance coverage in fiscal year 2017 from fiscal year 2016.



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**Note 6 - Risk Management (Continued)**

***B. Workers Compensation***

For fiscal year 2017, the District participated in the Ohio School Board Association (OSBA) Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (Note 12) established under Section 4123.29 of the Ohio Revised Code. The intent of the GRP is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating Districts is calculated as one experience and a common premium rate is applied to all Districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Participation in the GRP is limited to Districts and libraries that can meet the GRP's selection criteria.

***C. Self-Insurance***

During the fiscal year, employees of the District were covered by the District's medical/surgical and dental self-insurance Plan (the "Plan"). The District contributed approximately 90% per month per employee to the Plan and employees authorized payroll withholdings to pay their share of the premium which was approximately 10% per month. Total premiums paid into the internal service fund of the District were \$4,239,552 of which the District paid \$3,760,674 while the employees were responsible for the remaining portion.

At June 30, 2017 the self-insurance balance was (\$1,037,438). A comparison of the internal service fund cash and investments to the actuarially-measured liability as of June 30, 2017 follows:

	<u>2017</u>	<u>2016</u>
Cash and investments	(\$1,037,438)	(\$138,247)
Claims liabilities at June 30	\$370,749	\$316,217

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

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

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

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

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

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

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

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

Age and service requirements for retirement are as follows:

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

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

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

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

Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System's funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2017, the allocation to pension, death benefits, and Medicare B was 14 percent and nothing was allocated to the Health Care Fund.

The District paid \$370,320 to SERS during fiscal year 2017.

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

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

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

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

The DC Plan allows members to place all their member contributions and 9.5 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.

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

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, 2017, plan members were required to contribute 14 percent of their annual covered salary. The School District was required to contribute 14 percent; the entire 14 percent was the portion used to fund pension obligations. The fiscal year 2017 contribution rates were equal to the statutory maximum rates. The District paid \$1,346,952 to STRS during fiscal year 2017.

***Net Pension Liability***

The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's share of contributions to the pension plan relative to the projected contributions of all participating entities. Following is information related to the proportionate share:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportionate Share of the Net Pension Liability - 2016	\$ 6,290,710	\$ 28,910,736	\$ 35,201,446
Proportion of the Net Pension Liability - 2016	0.0859495%	0.08637028%	
Proportion of the Net Pension Liability - 2015	<u>0.0845525%</u>	<u>0.08391328%</u>	
Change in Proportionate Share	<u>0.0013970%</u>	<u>0.00245700%</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.

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

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

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of June 30, 2016, are presented below:

Wage Inflation	3 percent
Future Salary Increases, including inflation	3.50 percent to 18.20 percent
COLA or Ad Hoc COLA	3 percent
Investment Rate of Return	7.50 percent net of investments expense, including inflation
Actuarial Cost Method	Entry Age Normal

Mortality rates were based on the RP-2014 Blue Collar Mortality Table with fully generational projection and a five-year age set-back for both males and females.

The most recent experience study was completed June 30, 2015.

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long Term Expected Real Rate of Return</u>
Cash	1.00 %	0.50 %
US Stocks	22.50	4.75
Non-US Stocks	22.50	7.00
Fixed Income	19.00	1.50
Private Equity	10.00	8.00
Real Assets	15.00	5.00
Multi-Asset Strategies	10.00	3.00
Total	<u>100.00 %</u>	

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

**Discount Rate** The total pension liability was calculated using the discount rate of 7.50 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 (7.50 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 7.50 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 (6.50 percent), or one percentage point higher (8.50 percent) than the current rate.

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
District's proportionate share of the net pension liability	\$ 8,328,508	\$ 6,290,710	\$ 4,584,989

**Actuarial Assumptions - STRS**

The total pension liability in the June 30, 2016, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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

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

Actuarial assumptions used in the June 30, 2016, 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.



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

The target allocation and best estimates of geometric real rates of return for each major asset class are summarized as follows:

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

**Discount Rate** The discount rate used to measure the total pension liability was 7.75 percent as of June 30, 2016. The projection of cash flows used to determine the discount rate assumes member and employer contributions will be made at the statutory contribution rates in accordance with rate increases described above. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, STRS' fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 2016. 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, 2016.

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

	<u>1% Decrease (6.75%)</u>	<u>Current Discount Rate (7.75%)</u>	<u>1% Increase (8.75%)</u>
District's proportionate share of the net pension liability	\$ 38,420,019	\$ 28,910,736	\$ 20,889,095



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

***Changes between Measurement Date and Report Date***

In March 2017, the STRS Board adopted certain assumption changes which will impact their annual actuarial valuation prepared as of June 30, 2017. The most significant change in a reduction in the discount rate from 7.75 percent to 7.45 percent. In April 2017, the STRS Board voted to suspend cost of living adjustments granted on or after July 1, 2017. Although the exact amount of these changes is not known, the overall decrease to the District's net pension liability is expected to be significant.

**Note 8 - Postemployment Benefits**

**A. School Employees Retirement System**

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

Health Care Plan – Sections 3309.375 and 3309.69 of the Ohio Revised Code permit SERS to offer health care benefits to eligible retirees and beneficiaries. SERS' Retirement Board reserves the right to change or discontinue any health plan or program. SERS offers several types of health plans from various vendors, including HMOs, PPOs, Medicare Advantage and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively.

The Ohio Revised Code provides the statutory authority to fund SERS' postemployment benefits through employer contributions. Active members do not make contributions to the postemployment benefit plan.

The Health Care Fund was established under, and is administered in accordance with Internal Revenue Code 105(e). Each year after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer 14 percent contribution to the Health Care Fund to be used to subsidize the cost of health care coverage. For the year ended June 30, 2017, the health care allocation is 0 percent. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated if less than a full year of service credit was earned. By statute, no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2017, the minimum compensation level was established at \$23,000. The surcharge, added to the unallocated portion of the 14 percent employer contribution rate is the total amount assigned to the Health Care Fund. The District's contributions assigned to health care, including the surcharge, for the years ended June 30, 2017, 2016, and 2015 were \$44,542, \$42,263, and \$64,086, respectively, which equaled the required contributions each year.

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

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

**B. State Teachers Retirement System**

Plan Description – The District participates to the cost sharing multiple-employer defined benefit Health Plan (the “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. Benefits include hospitalization, physicians’ fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. The Plan is included in the report of STRS Ohio which may be obtained by visiting [www.strsoh.org](http://www.strsoh.org) or by calling (888) 227-7877.

Funding Policy Ohio Revised Code Chapter 3307 authorizes STRS to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS. Active employee members do not contribute to the 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 2017, 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, 2017, 2016, and 2015 were \$0, \$0 and \$0, respectively; 100 percent has been contributed for each fiscal year.

**Note 9 - Long Term Obligations**

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

	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
<b>Government Activities</b>					
Construction & Improvement					
Refunding Bonds					
Mature 10/2023; 1.00%-3.50%	\$ 2,794,997	\$ -	\$ 355,000	\$ 2,439,997	\$ 360,000
Permanent Improvement					
Tax Anticipation Notes					
Mature 12/2020; 1.00%-4.50%	1,040,000	-	195,000	845,000	200,000
2013 Energy Conservation Bonds					
Mature 12/2028; 1.00%-4.00%	1,705,947	-	80,947	1,625,000	125,000
House Bill 264 Energy Conservation Note					
Mature 12/2032; 2.87%	-	2,021,857	-	2,021,857	107,501
Total	<u>\$ 5,540,944</u>	<u>\$ 2,021,857</u>	<u>\$ 630,947</u>	<u>\$ 6,931,854</u>	<u>\$ 792,501</u>

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

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

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

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

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

On November 14, 2013, the District issued \$1,915,947 in energy conservation improvement bonds which consisted of \$960,000 in serial bonds, \$875,000 in term bonds, and \$80,947 in capital appreciation bonds. The capital appreciation bonds will mature on October 1, 2018 in the amount of \$94,997.

On June 30, 2017, the District entered into a note with Huntington Bank for \$2,021,857 for the acquisition and installment of energy management measures in five District school buildings. The note will mature on December 15, 2032 in the amount of \$80,015.

**Northern Local School District**  
**Perry County**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2017*

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

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

Fiscal Year Ending June 30	Principal	Interest
2018	792,501	203,036
2019	533,153	464,181
2020	816,282	170,008
2021	849,499	142,985
2022	642,808	118,294
2023-2027	2,162,133	326,342
2028-2032	1,055,463	83,872
2033	80,015	1,148
	<b>\$ 6,931,854</b>	<b>\$ 1,509,866</b>

**Note 10 – Lease Obligations**

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

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

In fiscal year 2017, the District made lease payments totaling \$121,727 in principal and \$9,547 in interest.

The agreements provide for minimum annual rental payments as follows:

Fiscal Year Ending June 30	Principal	Interest
2018	114,178	6,646
2019	84,311	4,009
2020	86,291	2,029
	<b>\$ 284,780</b>	<b>\$ 12,684</b>

**Northern Local School District**  
**Perry County**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2017*

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**Note 11 - Jointly Governed Organizations**

***A. Metropolitan Educational Technology Association***

The District is a participant in META Solutions which is a computer consortium that resulted from the mergers between Tri-Rivers Educational Computer Association (TRECA), Metropolitan Educational Council (MEC), Metropolitan Dayton Educational Cooperative Association (MDECA), Southeastern Ohio Voluntary Education Cooperative (SEOVEC), and South Central Ohio Computer Association (SCOCA). META Solutions develops, implements and supports the technology and instructional needs of schools in a cost-effective manner. META Solutions provides instructional, core, technology and purchasing services for its member districts. The Board of Directors consists of the Superintendents from eleven of the member districts. Financial information can be obtained from Dave Varda, who serves as Chief Financial Officer, 100 Executive Drive, Marion, Ohio 43302.

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

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

**Note 12 – Insurance Purchasing Pools**

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

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

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

**Northern Local School District**  
**Perry County**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2017*

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**Note 13 - Contingencies**

**A. Grants** The District received financial assistance from federal and state agencies in the form of grants. The cash disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at fiscal year-end.

**B. Litigation** There are currently a few matters of litigation with the District as a defendant. It is the opinion of management that the potential claims against the District not covered by insurance would not materially affect the financial statements.

**C. Foundation Funding** District Foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. Effective for the 2015-2016 school year, traditional districts must comply with minimum hours of instruction, instead of a minimum number of school days each year. The funding formula the Ohio Department of Education (ODE) is legislatively required to follow will continue to adjust as enrollment information is updated by the District, which can extend past the fiscal year-end. As of the date of this report, ODE adjustments for fiscal year 2017 have been finalized. The impact of the FTE adjustments did not have a material effect on the District.

**Note 14 - Set asides**

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

Set-aside Reserve Balance	
as of June 30, 2016	\$ -
Current Year Set-aside Requirement	393,377
Current Year Offsets	(923,016)
Qualifying Disbursements	-
Total	<u>\$ (529,639)</u>

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

**Northern Local School District**  
**Perry County**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2017*

**Note 15 – Contractual Commitments**

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

Governmental Funds	
General Fund	\$ 203,149
Other Governmental Funds	71,819
Total Governmental Funds	274,968
Private Purpose Trust Fund	10,550
Agency Fund	8,317
Grand Total	\$ 293,835

**Note 16 – Budgetary Basis of Accounting**

The budgetary basis as provided by law is based upon accounting for certain transactions on the basis of cash receipts, cash disbursements, and encumbrances. The Statement of Cash Receipts, Cash Disbursements and Change in Fund Balance – Budget and Actual – Budget Basis presented for the General Fund is prepared on the budgetary basis to provide a meaningful comparison of actual results with the budget.

The difference between the budgetary basis and the modified cash basis is outstanding fiscal year-end encumbrances which are treated as cash disbursements (budgetary basis) rather than as restricted or assigned fund balance (modified cash basis). In addition, differences may exist based on fund type reporting criteria between the modified cash basis financial statements and budgetary basis financial statements. The budgetary comparison information presented at June 30, 2017 for the General Fund represents the legally adopted budget for the General Fund without modification for any other funds combined with the General Fund for reporting purposes. The District's Public School Support Fund is presented as part of the District's General Fund in the fiscal year-end financial statements.

	General Fund
Change in Fund Balance	\$ 93,441
Public School Support Fund	1,717
Encumbrances	(203,149)
Change in Fund Balance - Budgetary Basis	\$ (107,991)



**Northern Local School District**  
**Perry County**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2017*

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**Note 17 – Changes in Accounting Principles**

For fiscal year 2017, the District has implemented the following:

*GASB Statement No. 77 “Tax Abatement Disclosures”* improves disclosure of tax abatement information, such as how the tax abatements affect their financial statements and operations and the government’s ability to raise resources in the future, by reporting (1) the government’s own tax abatement agreements; and (2) those that are entered into by other governments and that reduce the reporting government’s tax revenues. The implementation of this statement did not have an effect on the financial statements of the District.

*GASB Statement No. 78 “Pensions Provided Through Certain Multiple-Employer Defined Benefit Pension Plans”* amended the scope and applicability of GASB Statement No. 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that (1) is not a state or local governmental pension plan, (2) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and (3) has no predominant state or local governmental employer. The implementation of this statement did not have an effect on the financial statements of the District.

*GASB Statement No. 79 “Certain External Investment Pools and Pool Participants”* establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. The implementation of this statement did not have a significant effect on the financial statements of the District.

*GASB Statement No. 80 “Blending Requirements for Certain Component Units – An Amendment of GASB Statement No. 14”* amended the blending requirements for the financial statement presentation of component units of all state and local governments to enhanced the comparability of financial statements among governments. The implementation of this statement did not have an effect on the financial statements of the District.

*GASB Statement No. 82 “Pension Issues – An Amendment of GASB Statements No. 67, 68, and 73”* addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy plan member contribution requirements. The implementation of this statement did not have an effect on the financial statements of the District.



NORTHERN LOCAL SCHOOL DISTRICT  
PERRY COUNTY

SCHEDULE OF RECEIPTS AND EXPENDITURES OF FEDERAL AWARDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

FEDERAL GRANTOR <i>Pass-Through Grantor</i> Program/Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Passed Through to Subrecipients	Total Federal Receipts	Total Federal Expenditures
<b>U.S. DEPARTMENT OF AGRICULTURE</b>					
<i>Passed Through Ohio Department of Education:</i>					
Child Nutrition Cluster:					
Non-Cash Assistance (Food Distribution):					
School Breakfast Program	10.553	2016/2017	\$0	\$29,439	\$29,439
National School Lunch Program	10.555	2016/2017	0	52,335	52,335
Non-Cash Assistance Subtotal			0	81,774	81,774
Cash Assistance:					
School Breakfast Program	10.553	2016/2017	0	322,398	322,398
National School Lunch Program	10.555	2016/2017	0	409,051	409,051
Cash Assistance Subtotal			0	731,449	731,449
Total Child Nutrition Cluster			0	813,223	813,223
Total U.S. Department of Agriculture			0	813,223	813,223
<b>U.S. DEPARTMENT OF EDUCATION</b>					
<i>Passed Through Ohio Department of Education:</i>					
Title I Grants to Local Educational Agencies	84.010	2016 2017	0 0	24,437 427,093	0 427,093
Total Title I Grants to Local Educational Agencies			0	451,530	427,093
Special Education Cluster:					
Special Education - Grants to States	84.027	2017	0	450,907	450,907
Total Special Education Cluster			0	450,907	450,907
Twenty-First Century Community Learning Centers					
	84.287	2016 2017	0 0	41,320 200,000	5,114 199,258
Total Twenty-First Century Community Learning Centers			0	241,320	204,372
Improving Teacher Quality State Grants					
	84.367	2016 2017	0 0	11,612 88,816	0 88,816
Total Improving Teacher Quality State Grants			0	100,428	88,816
Total U.S. Department of Education			0	1,244,185	1,171,188
<b>Total Receipts and Expenditures of Federal Awards</b>			<b>\$0</b>	<b>\$2,057,408</b>	<b>\$1,984,411</b>

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

**NORTHERN LOCAL SCHOOL DISTRICT  
PERRY COUNTY**

**NOTES TO THE SCHEDULE OF RECEIPTS AND EXPENDITURES OF FEDERAL AWARDS  
2 CFR PART 200.510(b)(6)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

**NOTE A – BASIS OF PRESENTATION**

The accompanying Schedule of Receipts and Expenditures of Federal Awards (the Schedule) includes the federal award activity of the Northern Local School District, Perry County, Ohio, (the District) under programs of the federal government for the year ended June 30, 2017. The information on this Schedule is prepared in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial position, changes in net position, or cash flows of the District.

**NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**NOTE C – CHILD NUTRITION CLUSTER**

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

**NOTE D – FOOD DONATION PROGRAM**

The District reports commodities consumed on the Schedule at the 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

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

To the Board of Education:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the modified cash-basis financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Northern Local School District, Perry County, Ohio (the District), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated March 22, 2018, wherein we noted the District uses a special purpose framework other than generally accepted accounting principles.

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

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

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

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

***Compliance and Other Matters***

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters we must report under *Government Auditing Standards*, which are described in the accompanying Schedule of Findings as items 2017-001 through 2017-003.

***District's Responses to Findings***

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

***Purpose of this Report***

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



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

March 22, 2018



# Dave Yost • Auditor of State

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

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

To the Board of Education:

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

We have audited the Northern Local School District's, Perry County, Ohio (the District), compliance with the applicable requirements described in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could directly and materially affect each of the District's major federal programs for the year ended June 30, 2017. The *Summary of Auditor's Results* in the accompanying Schedule of Findings identifies the District's major federal programs.

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

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

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

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

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

### ***Basis for Qualified Opinion on Child Nutrition Cluster***

As described in Finding 2017-004 in the accompanying Schedule of Findings, the District did not comply with requirements regarding paid lunch equity applicable to its Child Nutrition Cluster major federal program. Compliance with this requirement is necessary, in our opinion, for the District to comply with requirements applicable to this program.

***Qualified Opinion on Child Nutrition Cluster***

In our opinion, except for the noncompliance described in the *Basis for Qualified Opinion on Child Nutrition Cluster* paragraph, the District complied, in all material respects, with the requirements referred to above that could directly and materially affect its Child Nutrition Cluster major federal program for the year ended June 30, 2017.

***Unmodified Opinion on the Other Major Federal Program***

In our opinion, the District complied in all material respects with the requirements referred to above that could directly and materially affect its other major federal program identified in the *Summary of Auditor's Results* section of the accompanying Schedule of Findings for the year ended June 30, 2017.

***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's compliance requirement will not be prevented, or timely detected or corrected. *A significant deficiency in internal over compliance* is a deficiency or a combination of deficiencies in internal control over compliance with a federal program's applicable compliance requirement that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. Therefore, we cannot assure we have identified all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. However, we identified a certain deficiency in internal control over compliance that we consider to be a material weakness, described in the accompanying Schedule of Findings as item 2017-004.

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

Northern Local School District  
Perry County  
Independent Auditor's Report on Compliance with Requirements Applicable  
To Each Major Federal Program and on Internal Control Over Compliance  
Required by the Uniform Guidance  
Page 3

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.

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

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

March 22, 2018

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**NORTHERN LOCAL SCHOOL DISTRICT  
PERRY COUNTY**

**SCHEDULE OF FINDINGS  
2 CFR PART 200.515  
JUNE 30, 2017**

**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)?	Yes
<i>(d)(1)(iv)</i>	Were there any material weaknesses in internal control reported for major federal programs?	Yes
<i>(d)(1)(iv)</i>	Were there any significant deficiencies in internal control reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Nutrition Cluster - Qualified Title I – Unmodified
<i>(d)(1)(vi)</i>	Are there any reportable findings under 2 CFR Part 200.516(a)?	Yes
<i>(d)(1)(vii)</i>	Major Programs (list): <ul style="list-style-type: none"> <li>• Child Nutrition Cluster – CFDA Nos. 10.553 and 10.555</li> <li>• Title I Grants to Local Educational Agencies – CFDA No. 84.010</li> </ul>	
<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 Part 200.520?	No

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

**FINDING NUMBER 2017-001**

**Noncompliance**

Ohio Rev. Code § 117.38 provides, in part, that each public office shall file a financial report for each fiscal year, within sixty days after the close of the fiscal year, except that public offices reporting pursuant to generally accepted accounting principles shall file their reports within one hundred fifty days after the close of the fiscal year. The Auditor of State may prescribe forms by rule or may issue guidelines, or both, for such reports. If the Auditor of State has not prescribed a rule regarding the form for the report, the public office shall submit its report on the form utilized by the public office. Ohio Admin. Code § 117-2-03 further clarifies the requirements of Ohio Rev. Code § 117.38.

Ohio Admin. Code § 117-2-03(B) requires the District to file its annual financial report pursuant to generally accepted accounting principles.

**NORTHERN LOCAL SCHOOL DISTRICT  
PERRY COUNTY**

**SCHEDULE OF FINDINGS  
2 CFR § 200.515  
JUNE 30, 2017  
(Continued)**

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

**FINDING NUMBER 2017-001 (Continued)**

**Noncompliance (Continued)**

However, the District prepared its financial statements in accordance with standards established by the Auditor of State for governmental entities not required to prepare annual reports in accordance with generally accepted accounting principles.

The accompanying financial statements and notes omit assets, liabilities, fund equities, and disclosures that, while material, cannot be determined at this time. Pursuant to Ohio Rev. Code § 117.38, the District may be fined and subject to various other administrative remedies for its failure to file the required financial report.

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

**FINDING NUMBER 2017-002**

**Noncompliance**

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

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

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

<u>Date</u>	<u>Fund (No.)</u>	<u>Negative Fund Balance</u>
September 30, 2016	Permanent Improvement (003)	\$140,154
	Food Service (006)	138,474
	Self-Insurance (024)	176,699
	IDEA (516)	144,379
	Title I (572)	187,247
	Title II (590)	32,975
February 28, 2017	Permanent Improvement (003)	615,617
	Self-Insurance (024)	192,962
	Title I (572)	23,054

**NORTHERN LOCAL SCHOOL DISTRICT  
PERRY COUNTY**

**SCHEDULE OF FINDINGS  
2 CFR § 200.515  
JUNE 30, 2017  
(Continued)**

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

**FINDING NUMBER 2017-002 (Continued)**

**Noncompliance (Continued)**

Date	Fund (No.)	Negative Fund Balance
May 31, 2017	Permanent Improvement (003)	54,686
	Self-Insurance (024)	551,028
	IDEA (516)	108,687
	Title I (572)	139,276
	Title II (590)	48,215
June 30, 2017	Self-Insurance (024)	791,715

In addition, the District's Self Insurance Internal Service Fund reflects a negative cash balance of \$1,037,438 on the accompanying financial statements as of June 30, 2017.

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

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

**FINDING NUMBER 2017-003**

**Noncompliance**

Ohio Rev. Code § 9.833 states such funds shall be reserved as are necessary, in the exercise of sound and prudent actuarial judgment, to cover potential cost of health care benefits for the officers and employees of the political subdivision. A certified audited financial statement and a report of amounts so reserved and disbursements made from such funds, together with a written report of a member of the American academy of actuaries certifying whether the amounts reserved conform to the requirements of this division, are computed in accordance with accepted loss reserving standards, and are fairly stated in accordance with sound loss reserving principles, shall be prepared and maintained, within ninety days after the last day of the fiscal year of the entity for which the report is provided for that fiscal year, in the office of the program administrator described in division (C)(3) of this section.

The actuarial report was provided indicating the minimum requirements under their interpretation of § 9.833 of the Ohio Revised Code were not satisfied.

Based upon the actuarial report, as of June 30, 2017, the District's reported reserved funds available to pay Incurred But Not Report (IBNR) claims was (\$791,715), as determined based upon analysis of historic claims data and generally accepted actuarial principles. Estimated IBNR claims as of June 30, 2017 were \$370,749. Funds were not reserved as necessary to cover potential cost of health care benefits for the officers and employees of the District.

**NORTHERN LOCAL SCHOOL DISTRICT  
PERRY COUNTY**

**SCHEDULE OF FINDINGS  
2 CFR § 200.515  
JUNE 30, 2017  
(Continued)**

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

**FINDING NUMBER 2017-003 (Continued)**

**Noncompliance (Continued)**

The Board of Education should address self-insurance rates and perform appropriate adjustments as needed to ensure that the District has the required reserved funds available to cover current claims and incurred but not reported claims.

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

**3. FINDINGS FOR FEDERAL AWARDS**

<b>Finding Number</b>	2017-004		
<b>CFDA Title and Number</b>	Child Nutrition Cluster – CFDA Nos. 10.553 and 10.555		
<b>Federal Award Identification Number / Year</b>	2017		
<b>Federal Agency</b>	U.S. Department of Education		
<b>Pass-Through Entity</b>	Ohio Department of Education		
<b>Repeat Finding from Prior Audit?</b>	No	<b>Finding Number (if repeat)</b>	

**Noncompliance/Material Weakness – Paid Lunch Equity**

7 C.F.R. Part 210.14(e) states that for each school year beginning July 1, 2011, school food authorities shall establish prices for paid lunches in accordance with this paragraph. Each school food authority shall:

- (i) Determine the average price of paid lunches. The average shall be determined based on the total number of paid lunches claimed for the month of October in the previous school year, at each different price charged by the school food authority.
- (ii) Calculate the difference between the per meal Federal reimbursement for paid and free lunches received by the school food authority in the previous school year (*i.e.*, the reimbursement difference).
- (iii) Compare the average price of a paid lunch under paragraph (e)(1)(i) of this section to the difference between reimbursement rates under paragraph (e)(1)(ii) of this section. When the average paid lunch price from the prior school year is equal to or greater than the difference in reimbursement rates as determined in paragraph (e)(1)(iii) of this section, the school food authority shall establish an average paid lunch price for the current school year that is not less than the difference identified in (e)(1)(iii) of this section; except that, the school food authority may use the procedure in paragraph (e)(4)(ii) of this section when establishing prices of paid lunches.

**NORTHERN LOCAL SCHOOL DISTRICT  
PERRY COUNTY**

**SCHEDULE OF FINDINGS  
2 CFR § 200.515  
JUNE 30, 2017  
(Continued)**

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

**FINDING NUMBER 2017-004 (Continued)**

**Noncompliance/Material Weakness – Paid Lunch Equity (Continued)**

When the average price from the prior school year is lower than the difference in reimbursement rates as determined in paragraph (e)(1)(iii) of this section, the school food authority shall establish an average price for the current school year that is not less than the average price charged in the previous school year as adjusted by a percentage equal to the sum obtained by adding two percent and the percentage change in the Consumers Price Index for All Urban Consumers used to increase the Federal reimbursement rate under section 11 of the Act for the most recent school year for which data are available. The percentage to be used is found in the annual notice published in the Federal Register announcing the national average payment rates, from the prior year. The maximum annual average price increase required under this paragraph shall not exceed ten cents. Any school food authority may round the adjusted price of the paid lunches down to the nearest five cents. A school food authority may increase the average price by more than ten cents.

For fiscal year 2017, the School District charged an average weighted price (\$2.13) for paid lunch which was less than the minimum price required by 7 C.F.R. Part 210.14(e)(3) of \$2.40.

The District should adjust lunch prices to comply with the requirements of 7 C.F.R. Part 210.14(e)(3).

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

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# Northern Local Schools

Administrative Offices  
 8700 Sheridan Road NW  
 Thornville, Ohio 43076  
 Phone: (740) 743-1303  
 Fax: (740) 743-3301  
 Website: <http://www.nlsd.k12.oh.us>

**Superintendent**  
 Thomas Perkins  
**Assistant Superintendent**  
 Angela Gussler  
**Treasurer**  
 Elizabeth Clark  
 (740) 743-1623  
**EMIS**  
 Kelly Wright  
**Special Education**  
 Amber Daly  
**Technology Coordinator**  
 Phillip Jones

**Sheridan High School**  
 Lisa Householder, Principal  
 (740) 743-1335  
**Sheridan Middle School**  
 Jay Hickman, Principal  
 (740) 743-1315  
**Glenford Elementary**  
 Sherri Lawrence, Principal  
 (740) 659-2209  
**Somerset Elementary**  
 Ed Wolfel, Principal  
 (740) 743-1454  
**Thornville Elementary**  
 Clinton Rhodes, Principal  
 (740) 246-6636

**Maintenance**  
 George Helsler, Supervisor  
 (740) 743-1303

**Transportation**  
 Dale Factor, Supervisor  
 (740) 743-1533

**Board Members**  
 Dale DeRolph  
 Nancy Fox  
 Patrick Hogan  
 Kimberly Severance  
 Dan Snider

## NORTHERN LOCAL SCHOOL DISTRICT PERRY COUNTY

### SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS 2 CFR PART 200.511(b) JUNE 30, 2017

Finding Number	Finding Summary	Status	Additional Information
2016-001	A material noncompliance citation was issued under Ohio Rev. Code § 117.38 and Ohio Admin. Code § 117-2-03(B) for not preparing the annual financial report pursuant to generally accepted accounting principles. The District has always reported following the cash basis.	Not Corrected	Expenditure for this is not justifiable.
2016-002	A material noncompliance citation was issued under Ohio Rev. Code § 5705.10(I) for having negative fund balances. This finding was first reported in the fiscal year 2011 audit.	Not corrected	District is waiting on a settlement of an insurance claim
2016-003	A material weakness and noncompliance citation was issued under 34 C.F.R. Part 76.722 for the final expenditure report not agreeing to the accounting system. This finding was first reported in the fiscal year 2015 audit.	Corrected.	

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**Treasurer**

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**EMIS**

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 Nancy Fox  
 Patrick Hogan  
 Megan Miller  
 Kimberly Severance

**CORRECTIVE ACTION PLAN**  
**2 CFR § 200.511(c)**  
**June 30, 2017**

Finding Number	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person
2017-001	District has elected to not file annual financial reports on a generally accepted accounting principles basis due to the cost prohibitive nature of both the report and the additional audit fees.	N/A	Treasurer
2017-002	District will monitor the activity in funds to ensure that monies paid is only being used for the purposes for which the funds are established.	06/30/2018	Treasurer
2017-003	District will review rates and make appropriate adjustments as needed to ensure that required funding is available to cover claims.	06/30/2018	Treasurer
2017-004	District is working with ODE/Child Nutrition to comply with this requirement and also not be disruptive to our students and parents during the school year with changing lunch prices.	08/01/2018	Treasurer

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# Dave Yost • Auditor of State

**NORTHERN LOCAL SCHOOL DISTRICT**

**PERRY COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
MARCH 29, 2018**