NORTHWESTERN LOCAL SCHOOL DISTRICT
WAYNE COUNTY

SINGLE AUDIT

FOR THE FISCAL YEAR ENDED JUNE 30, 2018

Dave Yost • Auditor of State

NORTHWESTERN LOCAL SCHOOL DISTRICT
WAYNE COUNTY
JUNE 30, 2018

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INDEPENDENT AUDITOR'S REPORT

Northwestern Local School District
Wayne County
7571 N. Elyria Road
West Salem, Ohio 44287

To the Board of Education:

Report on the Financial Statements

We have audited the accompanying financial statements of the cash balances, receipts and disbursements by fund type, and related notes of the Northwestern Local School District, Wayne County, Ohio (the District) as of and for the year ended June 30, 2018.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the District's internal control. Accordingly, we express no 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 that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our adverse audit opinion.

Basis for Adverse Opinion

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

Adverse Opinion

In our opinion, because of the significance of the matter discussed in the *Basis for Adverse Opinion* paragraph, the financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Northwestern Local School District as of June 30, 2018, and the respective changes in financial position or cash flows thereof for the year then ended.

Other Matters

Supplementary Information

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

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 22, 2019, 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.

Keith Faber

Keith Faber
Auditor of State

Columbus, Ohio

January 22, 2019

Northwestern Local School District
Wayne County, Ohio
Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances
All Governmental Fund Types
For the Fiscal Year Ended June 30, 2018

	Governmental Fund Types				Total
	General	Special Revenue	Debt Service	Capital Projects	(Memorandum Only)
CASH RECEIPTS:					
Taxes	$ 5,604,792	$ 48,192	$ 172,183	$ 203,704	$ 6,028,871
Intergovernmental	7,848,083	726,986	24,688	26,534	8,626,291
Investment Income	31,762	1,319	13,873	1,764	48,718
Tuition and Fees	1,488,341	0	0	0	1,488,341
Extracurricular Activities	180,263	182,205	0	0	362,468
Charges for Services	660	2,121	0	0	2,781
Gifts and Contributions	25,971	1,804	0	10,000	37,775
Miscellaneous	108,739	6,691	0	0	115,430
Total Cash Receipts	15,288,611	969,318	210,744	242,002	16,710,675
CASH DISBURSEMENTS:					
Instruction:					
Regular	7,213,949	34,353	0	0	7,248,302
Special	1,079,930	719,618	0	0	1,799,548
Vocational	402,407	0	0	0	402,407
Student Intervention Services	76,693	0	0	0	76,693
Other	580,125	0	0	0	580,125
Support Services:					
Pupils	822,238	0	0	0	822,238
Instructional Staff	693,373	16,766	0	0	710,139
Board of Education	60,437	0	0	0	60,437
Administration	1,221,143	0	0	0	1,221,143
Fiscal	370,792	803	2,888	3,371	377,854
Operation and Maintenance of Plant	1,539,773	17,701	0	0	1,557,474
Pupil Transportation	873,042	0	0	0	873,042
Central	1,807	0	0	0	1,807
Extracurricular Activities	346,956	199,331	0	33,575	579,862
Capital Outlay	0	0	0	295,936	295,936
Debt Service:					
Principal Retirement	0	0	220,000	0	220,000
Interest and Fiscal Charges	0	0	51,798	0	51,798
Total Cash Disbursements	15,282,665	988,572	274,686	332,882	16,878,805
Excess of Cash Receipts Over/(Under) Cash Disbursements	5,946	(19,254)	(63,942)	(90,880)	(168,130)
OTHER FINANCING RECEIPTS (DISBURSEMENTS):					
Refund of Prior Year Expenditures	14,087	0	0	0	14,087
Advances In	82,012	0	0	0	82,012
Advances Out	0	(82,012)	0	0	(82,012)
Transfers In	0	34,391	0	0	34,391
Transfers Out	(64,866)	0	0	0	(64,866)
Total Other Financing Receipts (Disbursements)	31,233	(47,621)	0	0	(16,388)
Net Change in Fund Cash Balances	37,179	(66,875)	(63,942)	(90,880)	(184,518)
Fund Cash Balances, July 1, 2017	2,163,661	135,913	1,485,774	310,853	4,096,201
Fund Cash Balances, June 30, 2018:					
Restricted	0	183,150	1,421,832	219,973	1,824,955
Assigned	870,637	0	0	0	870,637
Unassigned	1,330,203	(114,112)	0	0	1,216,091
Total Fund Cash Balances, June 30, 2018	$ 2,200,840	$ 69,038	$ 1,421,832	$ 219,973	$ 3,911,683

See accompanying notes

Northwestern Local School District
Wayne County, Ohio
Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances
All Proprietary and Fiduciary Fund Types
For the Fiscal Year Ended June 30, 2018

	Proprietary Fund Types		Fiduciary Fund Type		Total
	Enterprise	Internal Service	Private Purpose Trust	Agency	(Memorandum Only)
OPERATING CASH RECEIPTS:					
Food Services	$ 249,858	$ 0	$ 0	$ 0	$ 249,858
Charges for Services	0	166,875	0	0	166,875
Gifts and Contributions	0	0	500	0	500
Investment Income	0	0	1,264	0	1,264
Other Operating Receipts	0	0	0	123,690	123,690
Total Operating Cash Receipts	249,858	166,875	1,764	123,690	542,187
OPERATING CASH DISBURSEMENTS:					
Salaries	209,926	0	0	0	209,926
Fringe Benefits	196,640	0	0	0	196,640
Purchased Services	27,394	160,160	0	0	187,554
Materials and Supplies	166,011	0	0	0	166,011
Other Operating Disbursements	5,215	0	1,800	102,785	109,800
Total Operating Cash Disbursements	605,186	160,160	1,800	102,785	869,931
Operating Income (Loss)	(355,328)	6,715	(36)	20,905	(327,744)
NON-OPERATING CASH RECEIPTS (DISBURSEMENTS)					
Federal and State Subsidies	283,211	0	0	0	283,211
Interest	0	292	0	0	292
Total Non-Operating Cash Receipts (Disbursements)	283,211	292	0	0	283,503
Income (Loss) Before Transfers	(72,117)	7,007	(36)	20,905	(44,241)
Transfers In	30,356	0	0	119	30,475
Net Change in Fund Cash Balances	(41,761)	7,007	(36)	21,024	(13,766)
Fund Cash Balances, July 1, 2017	45,493	23,421	136,949	68,304	274,167
Fund Cash Balances, June 30, 2018	$ 3,732	$ 30,428	$ 136,913	$ 89,328	$ 260,401

See accompanying notes

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

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

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

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

B. Basis of Accounting

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

C. Cash

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

During fiscal year 2018, the District invested in STAR Ohio. STAR Ohio (the State Treasury Asset Reserve of Ohio), is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered 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 the fiscal year 2018, 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 $100 million, requiring the excess amount to be transacted the following business day(s), but only to the $100 million limit. All accounts of the participant will be combined for these purposes.

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

D. Fund Accounting

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

Governmental Funds

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

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

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

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

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

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

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

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

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

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

Proprietary Funds

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

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

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

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

Fiduciary Funds

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

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

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

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

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

E. Budgetary Basis

Tax Budget

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

Appropriations

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

Estimated Resources

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

Encumbrances

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

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

A summary of 2018 budgetary activity appears in Note 3.

F. Property, Plant and Equipment

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

G. Accumulated Leave

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

H. Pensions/OPEB

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

I. Total Columns on Financial Statements

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

J. Fund Balance

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

Nonspendable – The nonspendable fund balance category includes amounts that cannot be spent because they are not in spendable form, or legally or contractually required to be maintained intact. The "not in spendable form" criterion includes items that are not expected to be converted to cash. It also includes property acquired for resale unless the use of the proceeds from the sale of those properties is restricted, committed or assigned.

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

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

Assigned – Amounts in the assigned fund balance classification are intended to be used by the District for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the general fund, assigned amounts represent intended uses established by policies of the District. The Board of Education has by resolution authorized the Treasurer to assign fund balance. The Board of Education may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget.

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

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

K. Implementation of New Accounting Principles

For the fiscal year ended June 30, 2018, the District has (to the extent it applies to the cash basis of accounting) implemented Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial reporting for Postemployment Benefits other than Pensions*, GASB Statement No. 81, *Irrevocable Split-Interest Agreements,* GASB Statement No. 85, *Omnibus 2017* and GASB Statement No. 86, *Certain Debt Extinguishments.*

GASB Statement No. 75 requires recognition of the entire net postemployment benefits other than pensions (other postemployment benefits or OPEB) liability and a more comprehensive measure of postemployment benefits expense for OPEB provided to the employees of state and local governmental employers through OPEB plans that are administered through trusts or equivalent arrangements. See Note 6 for further information.

GASB Statement No. 81 requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, it requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement also requires that a government recognize revenue when the resources become applicable to the reporting period. The implementation of GASB Statement No. 81 did not have an effect on the financial statements of the District.

GASB Statement No. 85 establishes accounting and financial reporting requirements for blending component units, goodwill, fair value measurement and application, and postemployment benefits. The implementation of GASB Statement No. 85 did not have an effect on the financial statements of the School District.

GASB Statement No. 86 addresses the reporting and disclosure requirements of certain debt extinguishments including in-substance defeasance transactions and prepaid insurance associated with debt that is extinguished. The implementation of GASB Statement No. 86 did not have an effect on the financial statements of the District.

2. CASH AND INVESTMENTS

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

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

Under existing Ohio statutes all investment earnings are assigned to the General Fund unless statutorily required to be credited to a specific fund. For the District, all investment earnings are receipts in the General Fund, School Support Fund, Maintenance Fund, Student Activities Fund, Extracurricular Activities Fund, Bond Retirement Fund, Permanent Improvement Fund, Food Service Fund, Dental Insurance Fund, and various trust funds, as authorized by board resolution. Interest income earned in fiscal year 2018 totaled $49,982.

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

Demand Deposits	$ 2,548,851
Petty Cash	1,995
STAR Ohio	1,610,238
Certificate of Deposit	11,000
Total Deposits and Investments	$ 4,172,084

Protection of the District's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the financial institution as security for repayment, or by the financial institutions participation in the Ohio Pooled Collateral System (OPCS), a collateral pool of eligible securities deposited with a qualified trustee and pledged to the Treasurer of State to secure the repayment of all public monies deposited in the financial institution.

STAR Ohio is an investment pool operated by the Ohio State Treasurer. It is unclassified since it is not evidenced by securities that exist in physical or book entry form. Ohio law requires STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service. The weighted average of maturity of the portfolio held by STAR Ohio as of June 30, 2018, is 49 days and carries a rating of AAAm by S&P Global Ratings.

3. BUDGETARY ACTIVITY

Budgetary activity for the year ending June 30, 2018 is as follows:

2018 Budgeted vs Actual Receipts

	Budget Receipts	Actual Receipts	Variance
General	$ 13,610,932	$ 15,384,710	$ 1,773,778
Special Revenue	1,763,346	1,003,709	(759,637)
Debt Service	818,964	210,744	(608,220)
Capital Projects	213,712	242,002	28,290
Enterprise	446,654	533,069	86,415
Internal Service	127,121	167,167	40,046
Private Purpose Trust	4,414	1,764	(2,650)

2018 Appropriation vs Actual Budgetary Basis Expenditures

	Appropriation Authority	Budgetary Expenditures	Variance
General	$ 14,692,839	$ 16,021,442	$ (1,328,603)
Special Revenue	875,505	1,082,467	(206,962)
Debt Service	272,798	274,686	(1,888)
Capital Projects	411,981	416,454	(4,473)
Enterprise	585,758	605,727	(19,969)
Internal Service	147,908	160,160	(12,252)
Private Purpose Trust	14,169	1,800	12,369

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

Contrary to Ohio law, budgetary expenditures exceed appropriation authority in the General, Permanent Improvement, Food Services, Other Grants, Dental Insurance, Athletic Funds, Data Communications, IDEA Grant, Title I, and Title II funds for the year ended June 30, 2018.

4. PROPERTY TAXES AND INCOME TAXES

A. Property Taxes

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

Property taxes include amounts levied against all real and public utility property located in the District. Real property tax revenue received in calendar year 2018 represents collections of calendar year 2017 taxes. Real property taxes received in calendar year 2018 were levied after April 1, 2017, on the assessed value listed as of January 1, 2017, the lien date. Assessed values for real property taxes are established by State law at 35 percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar 2018 represents collections of calendar year 2017 taxes. Public utility real and tangible personal property taxes received in calendar year 2018 became a lien December 31, 2016, were levied after April 1, 2017 and are collected in 2018 with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

The District receives property taxes from Wayne and Ashland County. The County Auditors periodically advances to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2018, are available to finance fiscal year 2018 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

The assessed values upon which the fiscal year 2018 taxes were collected are:

	2017 Second Half Collections		2018 First Half Collections	
	Amount	Percent	Amount	Percent
Real Estate	$ 159,797,820	96.85%	$ 154,871,030	96.61%
Public Utility Personal Property	5,205,280	3.15%	5,441,470	3.39%
	$ 165,003,100	100.00%	$ 160,312,500	100.00%
Full Tax Rate per $1,000 of assessed value	$ 31.00		$ 31.10	

B. Income Taxes

The District has a 1.25 percent income tax levy that is collected on earned income. Employers of residents are required to withhold income tax on compensation and remit the tax to the State. Taxpayers are required to file an annual return. The State makes quarterly distributions to the District after withholding amounts for administrative fees and estimated refunds. Income tax receipts are credited to the general fund.

5. DEFINED BENEFIT PENSION PLANS

Net Pension Liability

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

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

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

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

Plan Description - School Employees Retirement System (SERS)

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

Age and service requirements for retirement are as follows:

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

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

Annual retirement benefits are calculated based on final average salary multiplied by a percentage that varies based on year of service; 2.2 percent for the first 30 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.

When a benefit recipient has received benefits for 12 months, an annual COLA is provided. This COLA is calculated on the base retirement benefit at the date of retirement and is not compounded. For those retiring prior to January 7, 2013, the COLA will continue to be a three percent simple annual COLA. For those retiring after January 7, 2013, beginning in calendar year 2019, the COLA will be based on the average percentage increase in the Consumer Price Index, capped at three percent.

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, 2018, the allocation to pension, death benefits, and Medicare B was 14 percent. SERS allocated 0.5 percent of employer contributions to the Health Care Fund for fiscal year 2018.

Plan Description - State Teachers Retirement System (STRS)

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

New members have a choice of three retirement plans; a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. Benefits are established by Ohio Revised Code Chapter 3307. The DB plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service. Effective August 1, 2015, the calculation was 2.2 percent of final average salary for the five highest years of earnings multiplied by all years of service. Members are eligible to retire at age 60 with five years of qualifying service credit, or at age 55 with 26 years of service, or 31 years of service regardless of age. Eligibility changes will be phased in until August 1, 2026, when retirement eligibility for unreduced benefits will be five years of service credit and age 65, or 35 years of service credit and at least age 60.

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, 12 percent of the 14 percent member rate goes to the DC Plan and the remaining 2 percent is applied to the DB Plan. Member contributions to the DC Plan are allocated among investment choices by the member, and contributions to the DB Plan from the employer and the member 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 service. The defined contribution portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity after termination of employment at age 50 or later.

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 to apply for disability benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member of the DC Plan dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Funding Policy – Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. For the fiscal year ended June 30, 2018, plan members were required to contribute 14 percent of their annual covered salary. The District was required to contribute 14 percent; the entire 14 percent was the portion used to fund pension obligations. The fiscal year 2018 contribution rates were equal to the statutory maximum rates.

Net Pension Liability

The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an independent actuarial valuation as of that date. The District's employer allocation percentage of the net pension liability was based on the employer's share of employer contributions in the pension plan relative to the total employer contributions of all participating employers. Following is information related to the proportionate share:

	SERS	STRS	Total
Proportionate Share of the Net Pension Liability	$ 3,531,823	$ 14,467,503	$ 17,999,326
Proportion of the Net Pension Liability	0.05911220%	0.06090243%	

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 terminations). Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future.

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

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

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of June 30, 2017, are presented below:

Wage Inflation	3.00 percent
Future Salary Increases, including inflation	3.50 percent to 18.20 percent
COLA or Ad Hoc COLA	2.50 percent
Investment Rate of Return	7.50 percent net of investment expense, including inflation
Actuarial Cost Method	Entry Age Normal (Level Percent of Payroll)

Mortality rates among active members were based upon the RP-2014 Blue Collar Mortality Table with fully generational projection and a five year age set-back for both males and females. Mortality among service retired members and beneficiaries were based upon the RP-2014 Blue Collar Mortality Table with fully generational projection with Scale BB, 120 percent of male rates and 110 percent of female rates. Mortality among disabled members were based upon the RP-2000 Disabled Mortality Table, 90 percent for male rates and 100 percent for female rates, set back five years is used for the period after disability retirement.

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the period ending July 1, 2010 to June 30, 2015. The assumed rate of inflation, payroll growth assumption and assumed real wage growth were reduced in the most recent actuarial valuation. The rates of withdrawal, retirement and disability updated to reflect recent experience and mortality rates were also updated.

The long-term return expectation for the Pension Plan Investments has been determined by 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 an arithmetic weighted average of the expected real return premiums for each asset class, adding the projected inflation rate, and adding the expected return from rebalancing uncorrelated asset classes. The target allocation and best estimates of arithmetic real rates of return for each major assets class are summarized in the following table:

Asset Class	Target Allocation	Long Term Expected Real Rate of Return
Cash	1.00 %	0.50 %
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	100.00 %	

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 earnings 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 District's proportionate share of 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	$ 4,901,253	$ 3,531,823	$ 2,384,647

Actuarial Assumptions - STRS

The total pension liability in the June 30, 2017, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50 percent
Salary Increases	12.50 percent at age 20 to 2.50 percent at age 65
Investment Rate of Return	7.45 percent, net of investment expenses, including inflation
Payroll Increases	3.00 percent
Cost-of-Living Adjustments	0.00 percent effective July 1, 2017

Post-retirement mortality rates for healthy retirees are based on the RP-2014 Annuitant Mortality Table with 50 percent of rates through age 69, 70 percent of rates between ages 70 and 79, 90 percent of rates between ages 80 and 84, and 100 percent of rates thereafter, projected forward generationally using mortality improvement scale MP-2016. Post-retirement disabled mortality rates are based on the RP-2014 Disabled Mortality Table with 90 percent of rates for males and 100 percent of rates for females, projected forward generationally using mortality improvement scale MP-2016. Pre-retirement mortality rates are based on RP-2014 Employee Mortality Table, projected forward generationally using mortality improvement scale MP-2016.

Actuarial assumptions used in the July 1, 2017, valuation are based on the results of an actuarial experience study for the period July 1, 2011 through June 30, 2016.

STRS' investment consultant develops an estimate range for the investment return assumption based on the target allocation adopted by the Retirement Board. The target allocation and long-term expected rate of return for each major asset class are summarized as follows:

Asset Class	Target Allocation*	Long Term Expected Real Rate of Return**
Domestic Equity	28.00 %	7.35 %
International Equity	23.00	7.55
Alternatives	17.00	7.09
Fixed Income	21.00	3.00
Real Estate	10.00	6.00
Liquidity Reserves	1.00	2.25
Total	100.00 %	

*The target allocation percentage is effective as of July 1, 2017. Target weights will be phased in over a 24-month period concluding on July 1, 2019.

**Ten year annualized geometric nominal returns, which include the real rate of return and inflation of 2.25 percent and does not include investment expenses. Over a 30-year period, STRS' investment consultant indicates that the above target allocations should generate a return above the actuarial rate of return, without net value added by management.

Discount Rate The discount rate used to measure the total pension liability was 7.45 percent as of June 30, 2017. 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. 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, 2017. Therefore, the long-term expected rate of return on pension plan investments of 7.45 percent was applied to all periods of projected benefit payments to determine the total pension liability as of June 30, 2017.

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 as of June 30, 2017, calculated using the current period discount rate assumption of 7.45 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 (6.45 percent) or one-percentage-point higher (8.45 percent) than the current assumption:

	1% Decrease (6.45%)	Current Discount Rate (7.45%)	1% Increase (8.45%)
District's Proportionate Share of the Net Pension Liability	$ 20,738,673	$ 14,467,503	$ 9,184,982

Assumption Changes since the Prior Measurement Date

The Retirement Board approved several changes to the actuarial assumptions in 2017. The long term expected rate of return was reduced from 7.75 percent to 7.45 percent, the inflation assumption was lowered from 2.75 percent to 2.50 percent, the payroll growth assumption was lowered to 3.00 percent, and total salary increases rate was lowered by decreasing the merit component of the individual salary increases, in addition to a decrease of 0.25 percent due to lower inflation. The healthy and disabled mortality assumptions were updated to the RP-2014 mortality tables with generational improvement scale MP-2016. Rates of retirement, termination and disability were modified to better reflect anticipated future experience.

Benefit Term Changes since the Prior Measurement Date

Effective July 1, 2017, the COLA was reduced to zero.

6. DEFINED BENEFIT OPEB PLANS

Net OPEB Liability

For fiscal year 2018, Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* was effective. This GASB pronouncement had no effect on beginning net position as reported June 30, 2017, as the net OPEB liability is not reported in the accompanying financial statements. The net OPEB liability has been disclosed below.

OPEB is a component of exchange transactions–between an employer and its employees—of salaries and benefits for employee services. OPEB 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 OPEB liability represents the District's proportionate share of each OPEB plan's collective actuarial present value of projected benefit payments attributable to past periods of service, net of each OPEB plan's fiduciary net position. The net OPEB 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 these estimates 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 OPEB are financed; however, the

District does receive the benefit of employees' services in exchange for compensation including OPEB.

GASB 75 assumes the liability is solely the obligation of the employer, because they benefit from employee services. OPEB contributions come from these employers and health care plan enrollees which pay a portion of the health care costs in the form of a monthly premium. The Ohio revised Code permits, but does not require the retirement systems to provide healthcare to eligible benefit recipients. Any change to benefits or funding could significantly affect the net OPEB liability. Resulting adjustments to the net OPEB liability would be effective when the changes are legally enforceable. The retirement systems may allocate a portion of the employer contributions to provide for these OPEB benefits.

Plan Description - School Employees Retirement System (SERS)

Health Care Plan Description - The District contributes to the SERS Health Care Fund, administered by SERS for non-certificated retirees and their beneficiaries. For GASB 75 purposes, this plan is considered a cost-sharing other postemployment benefit (OPEB) plan. SERS' Health Care Plan provides healthcare benefits to eligible individuals receiving retirement, disability, and survivor benefits, and to their eligible dependents. Members who retire after June 1, 1986, need 10 years of service credit, exclusive of most types of purchased credit, to qualify to participate in SERS' health care coverage. In addition to age and service retirees, disability benefit recipients and beneficiaries who are receiving monthly benefits due to the death of a member or retiree, are eligible for SERS' health care coverage. Most retirees and dependents choosing SERS' health care coverage are over the age of 65 and therefore enrolled in a fully insured Medicare Advantage plan; however, SERS maintains a traditional, self-insured preferred provider organization for its non-Medicare retiree population. For both groups, SERS offers a self-insured prescription drug program. Health care is a benefit that is permitted, not mandated, by statute. The financial report of the Plan is included in the SERS Comprehensive Annual Financial Report which can be obtained on SERS' website at www.ohsers.org under Employers/Audit Resources.

Access to health care for retirees and beneficiaries is permitted in accordance with Section 3309 of the Ohio Revised Code. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). SERS' Retirement Board reserves the right to change or discontinue any health plan or program. Active employee members do not contribute to the Health Care Plan. The SERS Retirement Board established 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.

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required pensions and benefits, the Retirement Board may allocate the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund in accordance with the funding policy. For fiscal year 2018, 0.5 percent of covered payroll was made to health care. 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. For fiscal year 2018, this amount was $23,700. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2018, the District's surcharge obligation was $27,145.

The surcharge, added to the allocated portion of the 14 percent employer contribution rate is the total amount assigned to the Health Care Fund. The District's contractually required contribution to SERS was $37,211 for fiscal year 2018.

Plan Description - State Teachers Retirement System (STRS)

Plan Description – The State Teachers Retirement System of Ohio (STRS) administers a cost-sharing Health Plan administered for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS. Ohio law authorizes STRS to offer this plan. Benefits include hospitalization, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums. Medicare Part B premium reimbursements will be discontinued effective January 1, 2020. The Plan is included in the report of STRS which can be obtained by visiting www.strsoh.org or by calling (888) 227-7877.

Funding Policy – Ohio Revised Code Chapter 3307 authorizes STRS to offer the Plan and gives the Retirement Board discretionary authority over how much, if any, of the health care costs will be absorbed by STRS. Active employee members do not contribute to the Health Care Plan. Nearly all health care plan enrollees, for the most recent year, pay a portion of the health care costs in the form of a monthly premium. Under Ohio law, funding for postemployment health care may be deducted from employer contributions, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2018, STRS did not allocate any employer contributions to postemployment health care.

Net OPEB Liability

The net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The District's proportion of the net OPEB liability was based on the District's share of contributions to the respective retirement systems relative to the contributions of all participating entities. Following is information related to the proportionate share:

	SERS	STRS	Total
Proportionate Share of the Net OPEB Liability	$ 1,602,892	$ 2,376,188	$ 3,979,080
Proportion of the Net OPEB Liability	0.05972610%	0.06090243%	

Actuarial Assumptions - SERS

The total OPEB liability is determined by SERS' actuaries in accordance with GASB Statement No. 74, as part of their annual actuarial valuation for each 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 terminations). Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future.

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

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

Key methods and assumptions used in calculating the total OPEB liability in the latest actuarial valuation date of June 30, 2017, are presented below:

Wage Inflation	3.00 percent
Future Salary Increases, including inflation	3.50 percent to 18.20 percent
Investment Rate of Return	7.50 percent net of investment expense, including inflation
Municipal Bond Index Rate	
Measurement Date	3.56 percent
Prior Measurement Date	2.92 percent
Single Equivalent Interest Rate	
Measurement Date	3.63 percent, net of plan investment expense, including price inflation
Prior Measurement Date	2.98 percent, net of plan investment expense, including price inflation
Medical Trend Assumption	
Medicare	5.50 percent - 5.00 percent
Pre-Medicare	7.50 percent - 5.00 percent

Mortality rates were based on the RP-2014 Blue Collar Mortality Table with fully generational projection and Scale BB, 120 percent of male rates and 110 percent of female rates. RP-2000 Disabled Mortality Table with 90 percent for male rates and 100 percent for female rates set back five years.

The most recent experience study was completed for the five year period ended June 30, 2015.

The long-term expected rate of return on plan assets is reviewed as part of the actuarial five-year experience study. The most recent study covers fiscal years 2010 through 2015, and was adopted by the Board on April 21, 2016. Several factors are considered in evaluating the long-term rate of return assumption including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return, 7.50 percent, by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

The target asset allocation and best estimates of arithmetic real rates of return for each major asset class, as used in the June 30, 2015 five-year experience study, are summarized as follows:

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

Discount Rate The discount rate used to measure the total OPEB liability at June 30, 2017 was 3.63 percent. The discount rate used to measure total OPEB liability prior to June 30, 2017 was 2.98 percent. The projection of cash flows used to determine the discount rate assumed that contributions will be made from members and the System at the state statute contribution rate of 2.00 percent of projected covered employee payroll each year, which includes a 1.50 percent payroll surcharge and 0.50 percent of contributions from the basic benefits plan. Based on these assumptions, the OPEB plan's fiduciary net position was projected to become insufficient to make future benefit payments during the fiscal year ending June 30, 2025. Therefore, the long-term expected rate of return on OPEB plan assets was used to present value the projected benefit payments through the fiscal year ending June 30, 2024 and the Fidelity General Obligation 20-year Municipal Bond Index rate of 3.56 percent, as of June 30, 2017 (i.e. municipal bond rate), was used to present value the projected benefit payments for the remaining years in the projection. The total present value of projected benefit payments from all years was then used to determine the single rate of return that was used as the discount rate. The projection of future benefit payments for all current plan members was until the benefit payments ran out.

Sensitivity of the District's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate and Changes in the Health Care Cost Trend Rates The net OPEB liability is sensitive to changes in the discount rate and the health care cost trend rate. The following table presents the net OPEB liability of SERS, what SERS' net OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (2.63 percent) and higher (4.63 percent) than the current discount rate (3.63 percent). Also shown is what SERS' net OPEB liability would be based on health care cost trend rates that are 1 percentage point lower (6.5 percent decreasing to 4.0 percent) and higher (8.5 percent decreasing to 6.0 percent) than the current rate.

	1% Decrease (2.63%)	Current Discount Rate (3.63%)	1% Increase (4.63%)
District's Proportionate Share of the Net OPEB Liability	$ 1,935,696	$ 1,602,892	$ 1,339,226

	1% Decrease	Current Trend Rate	1% Increase
District's Proportionate Share of the Net OPEB Liability	$ 1,300,626	$ 1,602,892	$ 2,002,945

Actuarial Assumptions - STRS

Key methods and assumptions used in the latest actuarial valuation, reflecting experience study results used in the June 30, 2017, actuarial valuation are presented below:

Inflation	2.50 percent
Projected Salary Increases	12.50 percent at age 20 to 2.50 percent at age 65
Investment Rate of Return	7.45 percent, net of investment expenses, including inflation
Payroll Increases	3.00 percent
Cost-of-Living Adjustments (COLA)	0.00 percent effective July 1, 2017
Blended Discount Rate of Return	4.13 percent
Health Care Cost Trends	6.00 percent to 11.00 percent, initial, 4.50 percent ultimate

Projections of benefits include the historical pattern of sharing benefit costs between the employers and retired plan members.

For healthy retirees the mortality rates are based on the RP-2014 Annuitant Mortality Table with 50 percent of rates through age 69, 70 percent of rates between ages 70 and 79, 90 percent of rates between ages 80 and 84, and 100 percent of rates thereafter, projected forward generationally using mortality improvement scale MP-2016. For disabled retirees, mortality rates are based on the RP-2014 Disabled Mortality Table with 90 percent of rates for males and 100 percent of rates for females, projected forward generationally using mortality improvement scale MP-2016.

Actuarial assumptions used in the June 30, 2017, valuation are based on the results of an actuarial experience study for the period July 1, 2011 through June 30, 2016.

Since the prior measurement date, the discount rate was increased from 3.26 percent to 4.13 percent based on the methodology defined under GASB *Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans (OPEB)* and the long term expected rate of return was reduced from 7.75 percent to 7.45 percent. Valuation year per capita health care costs were updated, and the salary scale was modified. The percentage of future retirees electing each option was updated based on current data and the percentage of future disabled retirees and terminated vested participants electing health coverage were decreased. The assumed mortality, disability, retirement, withdrawal and future health care cost trend rates were modified along with the portion of rebated prescription drug costs.

Also since the prior measurement date, the subsidy multiplier for non-Medicare benefit recipients was reduced from 2.1 percent to 1.9 percent per year of service. Medicare Part B premium reimbursements were discontinued for certain survivors and beneficiaries and all remaining Medicare Part B premium reimbursements will be discontinued beginning January 2019. Subsequent to the current measurement date, the date for discontinuing remaining Medicare Part B premium reimbursements was extended to January 2020.

STRS' investment consultant develops an estimate range for the investment return assumption based on the target allocation adopted by the Retirement Board. The target allocation and long-term expected rate of return for each major asset class are summarized as follows:

Asset Class	Target Allocation*	Long Term Expected Real Rate of Return**
Domestic Equity	28.00 %	7.35 %
International Equity	23.00	7.55
Alternatives	17.00	7.09
Fixed Income	21.00	3.00
Real Estate	10.00	6.00
Liquidity Reserves	1.00	2.25
Total	100.00 %	

*The target allocation percentage is effective as of July 1, 2017. Target weights will be phased in over a 24-month period concluding on July 1, 2019.

**Ten year annualized geometric nominal returns, which include the real rate of return and inflation of 2.25 percent and does not include investment expenses. Over a 30-year period, STRS' investment consultant indicates that the above target allocations should generate a return above the actual rate of return, without net value added by management.

Discount Rate The discount rate used to measure the total OPEB liability was 4.13 percent as of June 30, 2017. The projection of cash flows used to determine the discount rate assumes STRS Ohio continues to allocate no employer contributions to the health care fund. Based on these assumptions, the OPEB plan's fiduciary net position was not projected to be sufficient to make all projected future benefit payments of current plan members. The OPEB plan's fiduciary net position was projected to become insufficient to make future benefit payments during the fiscal year ending June 30, 2037. Therefore, the long-term expected rate of return on OPEB plan assets was used to determine the present value of the projected benefit payments through the fiscal year ending June 30, 2036 and the Bond Buyer 20-year municipal bond rate of 3.58 percent as of June 30, 2017 (i.e. municipal bond rate), was used to determine the present value of the projected benefit payments for the remaining years in the projection. The total present value of projected benefit payments from all years was then used to determine the single rate of return that was used as the discount rate. The blended discount rate of 4.13 percent, which represents the long-term expected rate of return of 7.45 percent for the funded benefit payments and the Bond Buyer 20-year municipal bond rate of 3.58 percent for the unfunded benefit payments, was used to measure the total OPEB liability as of

June 30, 2017. A blended discount rate of 3.26 percent which represents the long term expected rate of return of 7.75 percent for the funded benefit payments and the Bond Buyer 20-year municipal bond rate of 2.85 percent for the unfunded benefit payments was used to measure the total OPEB liability at June 30, 2016.

Sensitivity of the District's Proportionate Share of the Net OPEB Liability to Changes in the Discount and Health Care Cost Trend Rate The following table represents the net OPEB liability as of June 30, 2017, calculated using the current period discount rate assumption of 4.13 percent, as well as what the net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (3.13 percent) or one percentage point higher (5.13 percent) than the current assumption. Also shown is the net OPEB liability as if it were calculated using health care cost trend rates that are one percentage point lower or one percentage point higher than the current health care cost trend rates.

	1% Decrease (3.13%)	Current Discount Rate (4.13%)	1% Increase (5.13%)
District's Proportionate Share of the Net OPEB Liability	$ 3,189,994	$ 2,376,188	$ 1,733,015

	1% Decrease	Current Trend Rate	1% Increase
District's Proportionate Share of the Net OPEB Liability	$ 1,650,874	$ 2,376,188	$ 3,330,787

7. LONG-TERM DEBT OBLIGATIONS

	Outstanding 7/1/2017	Additions	Reductions	Outstanding 6/30/2018	Amounts Due in One Year
General Obligation Bonds:					
2011 Refunding Bonds	$ 1,310,000	$ 0	$ 35,000	$ 1,275,000	$ 35,000
2001 Various Improvement Bonds	385,000	0	185,000	200,000	200,000
	$ 1,695,000	$ 0	$ 220,000	$ 1,475,000	$ 235,000

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

On July 1, 2001, the District issued $3,633,000 in various improvement bonds with an interest rate of 3.0%. This was partially refunded by the 2011 refunding bonds.

In September, 2011, the District issued $1,885,000 of general obligation refunding bonds. The proceeds of the bonds were used to partially refund in advance of their maturity the December 1, 2011 through December 2018, December 1, 2021, and December 1, 2024 maturities totaling $1,885,000 of the District's general obligation bonds, 2001. The bonds were issued with interest rates of 1.0% to 3.2%. This refunding was done to achieve interest cost savings. Proceeds of the bonds were used to establish an irrevocable escrow account. Funds in the escrow account were invested in special direct obligations of the United States Treasury or other obligations of the United States government or its agencies. The escrow securities and their earnings are structured to pay the principal and interest on the refunded 2001 bonds as such payments become due, until the call dates of the respective refunded bonds, at which time the escrow pays the principal of the refunded bonds at a price of par plus interest. Since these bonds have been placed in irrevocable trust, they are considered defeased for these financial statements. The advance refunding resulted in a difference between reacquisition price and the net carrying amount of the old debt of $246,825. The economic gain was $196,902. These refunding bonds were issued with a premium of $57,564.

The annual requirement to amortize all debt outstanding as of June 30, 2018 is as follows:

Fiscal Year	2011 Refunding Bond	Various Improvement Bonds	Total
2019	$ 68,460	$ 278,656	$ 347,116
2020	275,249	0	275,249
2021	274,307	0	274,307
2022	272,835	0	272,835
2023	275,844	0	275,844
2024-2025	229,240	0	229,240
Total Principal and Interest	1,395,935	278,656	1,674,591
Less Interest	(120,935)	(78,656)	(199,591)
Total Principal	$ 1,275,000	$ 200,000	$ 1,475,000

8. SET ASIDES

The District is required by State statute to annually set aside in the general fund an amount based on a statutory formula for the acquisition and construction of capital improvements. Amounts not spent by year-end or offset by similarly restricted resources received during the year must be held in cash at year-end and carried forward to be used for the same purposes in future years. In prior years, the District was also required to set aside money for budget stabilization. At June 30, 2018, only the unspent portion of certain workers' compensation refunds continues to be set aside.

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

	Budget Stabilization Reserve	Capital Improvement Reserve
Balance, June 30, 2017	$ 173,531	$ 0
Current Year Set-Aside Requirement	0	246,157
Current Year Qualifying Disbursements	0	(220,000)
Current Year Offset	0	(238,630)
Total	$ 173,531	$ (212,473)
Balance Carried Forward to Fiscal Year 2019	$ 173,531	$ 0
Set-Aside Balance June 30, 2018	$ 173,531	$ 0

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

9. INTERNAL ACTIVITY

A. Interfund Advances

Interfund advances consisted of the following at June 30, 2018:

	Advances In	Advances Out
General Fund	$ 82,012	$ 0
Special Revenue Funds:		
District Managed Student Activities	0	17,190
IDEA, Part B	0	46,375
Title I - Disadvantaged Children	0	10,665
Improving Teacher Quality	0	7,782
	$ 82,012	$ 82,012

The primary purpose of the interfund balances is to cover costs in specific funds where revenues were not received by June 30. The interfund advances in to the general fund during fiscal year 2018 were to repay the prior fiscal year outstanding balance.

B. Interfund Transfers

Transfers made during fiscal year 2018 were as follows:

	Transfers In	Transfers Out
General Fund	$ 0	$ 64,866
Special Revenue Fund:		
VOAG Supplemental Equipment Grant	16	0
Athletic Fund	29,097	0
Miscellaneous State Grants	5,278	0
Enterprise Fund:		
Food Service	30,356	0
Agency Fund:		
Student Managed Activities	119	0
	$ 64,866	$ 64,866

These transfers were made to move unrestricted balances to support programs and projects accounted for in other funds.

10. JOINTLY GOVERNED ORGANIZATION

Tri-County Computer Services Association (TCCSA)

The Tri-County Computer Services Association (TCCSA) is a jointly governed organization comprised of 25 School Districts. The jointly governed organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions for member districts. Each of the governments of these districts supports TCCSA based on per pupil charge dependent upon the software package utilized. The TCCSA assembly consists of a superintendent or designated representative from each participating district and a representative from the fiscal agent. TCCSA is governed by a board of directors chosen from the general membership of the TCCSA assembly. The board of directors consists of a representative from the fiscal agent, the chairman of each operating committee, and at least an assembly member from each county from which participating districts are located. Financial information can be obtained by contacting the Treasurer at the Tri-County Educational Service Center, which is the fiscal agent, located at 741 Winkler Drive, Wooster, OH 44691. During the year ended June 30, 2018, the District paid $84,614 to TCCSA for basic service charges.

11. RISK MANAGEMENT

A. Property and Liability

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

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

B. Workers Compensation

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

C. Dental Insurance

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

12. PUBLIC ENTITY RISK POOL

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

13. CONTINGENCIES

A. Grants

The District received financial assistance from federal and State agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, the effect of any such disallowed claims on the overall financial position of the District at June 30, 2018, if applicable, cannot be determined at this time.

B. Litigation

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

C. School District Funding

School district Foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. The Ohio Department of Education (ODE) is legislatively required to adjust/reconcile funding as enrollment information is updated by schools throughout the State, which can extend past the fiscal year end. As a result of the fiscal year 2018 reviews, the District is due $17,733 from ODE. This amount has not been included in the financial statements.

14. FUND BALANCE

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

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

	General Fund	Special Revenue Funds	Debt Service Funds	Capital Project Funds	Total
Restricted for:					
Capital Projects	$ 0	$ 0	$ 0	$ 219,973	$ 219,973
Debt Service	0	0	1,421,832	0	1,421,832
Maintenance Fund	0	91,900	0	0	91,900
Student Activities	0	76,746	0	0	76,746
Other Purposes	0	14,504	0	0	14,504
Total Restricted	0	183,150	1,421,832	219,973	1,824,955
Assigned for:					
Encumbrances:					
Instructional	117,709	0	0	0	117,709
Support Services	554,587	0	0	0	554,587
Other Purposes	1,615	0	0	0	1,615
Subsequent Year Appropriations	18,335	0	0	0	18,335
Other Purposes	178,391	0	0	0	178,391
Total Assigned	870,637	0	0	0	870,637
Unassigned	1,330,203	(114,112)	0	0	1,216,091
Total Fund Cash Balance	$ 2,200,840	$ 69,038	$ 1,421,832	$ 219,973	$ 3,911,683

As of June 30, 2018 the One Connectivity, IDEA Part B, Title I and Title II-A funds had deficit fund balances of $4,200, $63,630, $39,644 and $6,638, respectively. The general fund provides transfers when cash is needed.

15. COMMITMENTS

Encumbrances

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

Fund	Amount
General	$ 673,911
Special Revenue	11,883
Capital Projects	83,572
	$ 769,366

NORTHWESTERN LOCAL SCHOOL DISTRICT
WAYNE COUNTY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2018

FEDERAL GRANTOR ***Pass Through Grantor*** Program/Cluster Title	Federal CFDA Number	Total Federal Expenditures
U.S. DEPARTMENT OF AGRICULTURE		
Passed Through Ohio Department of Education		
Child Nutrition Cluster:		
Non - Cash Assistance (Food Distribution):		
National School Lunch Program	10.555	$ 48,433
Cash Assistance:		
School Breakfast Program	10.553	27,875
National School Lunch Program	10.555	132,891
Cash Assistance Subtotal:		160,766
Total Child Nutrition Cluster		209,199
Total U.S. Department of Agriculture		**209,199**
U.S. DEPARTMENT OF EDUCATION		
Passed Through Ohio Department of Education		
Title I Grants to Local Educational Agencies	84.010	288,074
Special Education Cluster:		
Special Education_Grants to States	84.027	313,326
Improving Teacher Quality State Grants	84.367	52,210
Student Support and Academic Enrichment Grant	84.424	10,000
Total U.S. Department of Education		**663,610**
Total Expenditures of Federal Awards		**$ 872,809**

The accompanying notes are an integral part of this schedule.

NORTHWESTERN LOCAL SCHOOL DISTRICT
WAYNE COUNTY

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
2 CFR 200.510(b)(6)
FOR THE YEAR ENDED JUNE 30, 2018

NOTE A – BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal award activity of Northwestern Local School District, Wayne County (the District) under programs of the federal government for the year ended June 30, 2018. The information on this Schedule is prepared in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial position or changes in net position of the District.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

NOTE C - CHILD NUTRITION CLUSTER

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

NOTE D - FOOD DONATION PROGRAM

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

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

Northwestern Local School District
Wayne County
7571 N. Elyria Road
West Salem, Ohio 44287

To the Board of Education:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the Northwestern Local School District, Wayne County, (the District) as of and for the year ended June 30, 2018, and the related notes to the financial statements and have issued our report thereon dated January 22, 2019, wherein we issued an adverse opinion on the District's financial statements because the District did not follow accounting principles generally accepted in the United States of America as required by Ohio Administrative Code Section 117-2-03.

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. Therefore, unidentified material weaknesses or significant deficiencies may exist. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings that we consider a material weakness. We consider finding 2018-002 to be a material weakness.

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 2018-001, 2018-003, and 2018-004.

District*'s Response to Findings*

The District's responses to the findings identified in our audit are described in the accompanying 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.

Keith Faber
Auditor of State

Columbus, Ohio

January 22, 2019

OHIO AUDITOR OF STATE
KEITH FABER

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

Northwestern Local School District
Wayne County
7571 N. Elyria Road
West Salem, OH 44287

To the Board of Education:

Report on Compliance for each Major Federal Program

We have audited Northwestern Local School District's (the District) compliance with the applicable requirements described in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could directly and materially affect each of Northwestern Local School District's major federal programs for the year ended June 30, 2018. 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.

Opinion on each Major Federal Program

In our opinion, Northwestern Local School District complied, in all material respects with the compliance requirements referred to above that could directly and materially affect each of its major federal programs for the year ended June 30, 2018.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance which Uniform Guidance requires us to report, described in the accompanying schedule of findings as item 2018-005. Our opinion on *each* major federal program is not modified with respect to these matters.

The District's response to our noncompliance finding is described in the accompanying schedule of findings and corrective action plan. We did not subject the District's response to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on it.

Report on Internal Control Over Compliance

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily 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 controls 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 2018-005.

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.

Keith Faber
Auditor of State

Columbus, Ohio

January 22, 2019

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NORTHWESTERN LOCAL SCHOOL DISTRICT
WAYNE COUNTY

SCHEDULE OF FINDINGS
2 CFR § 200.515
JUNE 30, 2018

1. SUMMARY OF AUDITOR'S RESULTS

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

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

FINDING NUMBER 2018-001

Noncompliance - Annual Financial Report

Ohio Administrative Code § 117-2-03(B) requires the District to prepare its annual financial report in accordance with generally accepted accounting principles (GAAP).

Further, **Ohio Rev. Code § 117.38** requires the District publish notice in a newspaper published in the political subdivision or taxing district, and if there is no such newspaper, then in a newspaper of general circulation in the political subdivision or taxing district. The notice shall state that the financial report has been completed by the public office and is available for public inspection at the office of the chief fiscal officer.

The District did not prepare its annual financial report in accordance GAAP. The District prepared its annual financial report 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. This basis of accounting is similar to the cash receipts and disbursements basis of accounting. The accompanying financial statements and footnotes omit assets, liabilities, deferred inflows/outflows of resources, fund equities/net position, 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. Additionally, the District did not publish notice its annual financial report was complete and available for public inspection.

Failure to report on a GAAP basis compromises the District's ability to evaluate and monitor the overall financial condition of the District. To help provide the users with more meaningful financial statements, we recommend the District prepare its financial statements in accordance with generally accepted accounting principles and publish notice in the local newspaper stating the District's financial report is available for public inspection.

Officials' Response: See Corrective Action Plan

FINDING NUMBER 2018-002

Material Weakness – Service Organization Controls

The District contracted with Medical Mutual PPO to be its third party administrator for dental insurance claims. The Medical Mutual Service Organization Controls Report (SOC1) lists complementary user entity controls including:

- Periodic reviews of enrollment are performed to ensure the list of enrollees remains current.
- Claim invoices are reviewed before being paid.
- Appropriate users review output reports for completeness and accuracy.

The District receives weekly and monthly claims listing reports from Medical Mutual, but does not maintain the reports to show review of the reports and support for payments to Medical Mutual. In addition, the District did not perform periodic reviews of enrollment to ensure that the enrollee list remained current. This could result in the District overpaying insurance claims or paying for claims for employees who are not eligible.

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

FINDING NUMBER 2018-002 (Continued)

Material Weakness – Service Organization Controls (Continued)

The District should maintain invoices provided by Medical Mutual and maintain evidence of review of the amounts billed to automatic payments on the District's bank statements and employee eligibility. The District should also perform periodic reviews of enrollment to ensure all enrollees are eligible employees.

Officials' Response: See Corrective Action Plan

FINDING NUMBER 2018-003

Noncompliance – Expenditures Exceed Appropriations

Ohio Rev. Code § 5705.41(B) prohibits a district from expending money unless it has been appropriated. The legal level of budgetary control for the district is the fund level, at which the board adopts the original appropriations measure.

Budgetary expenditures exceeded appropriations for the year ended June 30, 2018, at the fund level as follows:

Fund Number	Fund Name	Appropriation Authority	Total Expenditures	Variance
001	General	$13,800,000	$15,671,259	($1,871,259)
003	Permanent Improvement	225,000	413,082	(188,082)
006	Food Service	450,000	600,329	(150,329)
019	Other Grants	8,000	12,621	(4,621)
024	Dental Insurance	130,000	160,160	(30,160)
300	Athletic Funds	215,000	222,214	(7,214)
451	Data Communications	5,400	10,800	(5,400)
516	IDEA Grant	272,157	400,139	(127,982)
572	Title I	251,016	323,574	(72,558)
590	Title II	44,567	62,210	(17,643)

Failure to have adequate appropriation authority in place at the time of expenditure may result in expenditures exceeding available funds.

The Treasurer should monitor budgetary expenditures to ensure appropriations are not exceeded. The Treasurer may request the board to approve increased expenditures by increasing appropriations and amending estimated resources if necessary.

Officials' Response: See Corrective Action Plan

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

FINDING NUMBER 2018-004

Noncompliance – Negative Fund Balances

Ohio Rev. Code § 5705.10 states money paid into any fund shall be used only for the purposes for which such fund was established. The existence of deficit fund balances indicates money from another fund or funds was used to pay obligations of funds that carry deficit balances.

The District had the following negative fund balances at June 30, 2018:

Fund	Amount
Vocational Education Enhance	$4,200
Special Education Grants Fund	63,630
Title I Grant Fund	39,644
Improving Teacher Quality State Grants	6,638

Deficit fund balances indicate money from another fund was used, which could lead to misuse of restricted funds.

The District should monitor fund balances to ensure expenditures are made within appropriated levels of available funds and if negative fund balances are anticipated, the Board should make an approved transfer or advance of funds to cover the necessary expenditures.

Officials' Response: See Corrective Action Plan

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

Finding Number	2018-005		
CFDA Title and Number	Title I Grants to Local Educational Agencies – CFDA #84.010 Special Education Grants to States – CFDA #84.027		
Federal Award Identification Number / Year	2018		
Federal Agency	U.S. Department of Education		
Compliance Requirement	Other		
Pass-Through Entity	Ohio Department of Education		
Repeat Finding from Prior Audit?	No	**Finding Number (if repeat)**	N/A

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

FINDING NUMBER 2018-005 (Continued)

Noncompliance/Material Weakness (Continued)

2 C.F.R Subpart F § 200.510(b) requires that the auditee prepare a Schedule of Expenditures of Federal Awards (the Schedule) for the period covered by the District's financial statements which must include the total federal awards expended as determined in accordance with § 200.502. At a minimum, the schedule must:

(3) Provide total Federal awards expended for each individual Federal program and the CFDA number or other identifying number when the CFDA information is not available.

During 2018, the Treasurer recorded expenditures in excess of the District's grant allocation for Special Education and Title I grants, creating deficit balances in those funds, that can only by corrected by transferring money from the general fund since no additional grant funding will be received from that grant period. See Finding 2018-004 for noncompliance citation regarding the negative fund balances. These errors in the Special Education and Title I funds also led to the following errors in the Federal Schedule:

- The District overstated total expenditures for the Special Education Grants to States federal program (CFDA #84.027) by $85,505 due to inclusion of expenditures that would not be reimbursed for, and therefore, covered by the District's General Fund.
- The District overstated total expenditures for the Title I Grants to Local Educational Agencies federal program (CFDA #84.010) by $35,276 due to inclusion of expenditures that would not be reimbursed for, and therefore, covered by the District's General Fund.

Errors to the Schedule could have an adverse effect on future grant awards by the awarding agency or agencies in addition to an inaccurate assessment of major federal programs that would be subjected to audit. Adjustments to the Schedule, to which management have agreed, are reflected in the accompanying Schedule.

District management should review all grant and loan awards and be familiar with federal reporting requirements. The District should implement a system to track all federal expenditures and related information separately from other expenditures and report federal expenditures with proper support including, but not limited to, grant agreements, calculation of the expenditures, and any federal reporting requirements. This will help ensure the Schedule is complete and accurate and major federal programs are correctly identified for audit.

Officials' Response: See Corrective Action Plan

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Northwestern Local School District
7571 North Elyria Road
West Salem, Ohio 44287-9707
Superintendent - (419) 846-3151 x.1
Treasurer - (419) 846-3400 x.3

Jeffrey N. Layton
Superintendent

Scott Smith
Associate Superintendent

Cathie L. Franks
Executive Secretary
EMIS Coordinator

Pride & Tradition

Lesa L Forbes
Treasurer

Sherri L. Hamilton
Assistant to the Treasurer

Jamie L. Imhoff
Transportation Administrative Secretary

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
2 CFR 200.511(b)
JUNE 30, 2018

Finding Number	Finding Summary	Status	Additional Information
2017-001 2016-001	Ohio Admin. Code Section 117-2-03(B), Prepare Annual Financial Report in Accordance with Generally Accepted Accounting Principles (First issued in 2002)	Not Corrected	Repeated as Finding 2018-001, see Corrective Action Plan.
2017-002	Public Money Illegally Expended, Finding For Recovery	Fully Corrected	
2017-003 2016-002	Material Noncompliance – Budgeting Procedures (First issued in 2014)	Not Corrected	Repeated as Finding 2018-003, see Corrective Action Plan.
2017-004	Material Weakness – Service Organization Controls	Not Corrected	Repeated as Finding 2018-002, see Corrective Action Plan.

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CORRECTIVE ACTION PLAN
2 CFR § 200.511(c)
JUNE 30, 2018

Finding Number	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person
2018-001	The District does not intend to report in accordance with generally accepted accounting principles (GAAP). Management believes the cost savings far outweighs reporting on GAAP.	N/A	Lesa Forbes, Treasurer
2018-002	Monthly reporting from Medical Mutual PPO is being retained electronically upon receipt from provider for future reviewing opportunity.	Immediately	Lesa Forbes, Treasurer
2018-003	The Treasurer's Office will monitor budgets monthly and make necessary amendments.	Immediately	Lesa Forbes, Treasurer
2018-004	The Treasurer's Office will monitor fund balances monthly and make necessary transfers as needed.	Immediately	Lesa Forbes, Treasurer
2018-005	The Treasurer's Office will monitor federal expenditures in each fund and cost center and make necessary amendments.	Immediately	Lesa Forbes, Treasurer

OHIO AUDITOR OF STATE
KEITH FABER

NORTHWESTERN LOCAL SCHOOL DISTRICT

WAYNE COUNTY

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
MARCH 7, 2019