

NORTHWOOD LOCAL SCHOOL DISTRICT

WOOD COUNTY, OHIO

AUDIT REPORT

For the Year Ended June 30, 2018



OHIO AUDITOR OF STATE KEITH FABER



Board of Education
Northwood Local School District
500 Lemoyne Road
Northwood, OH 43619-1812

We have reviewed the *Independent Auditor's Report* of Northwood Local School District, Wood County, prepared by Charles E. Harris & Associates, Inc., for the audit period July 1, 2017 through June 30, 2018. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

A handwritten signature in black ink that reads "Keith Faber".

Keith Faber
Auditor of State
Columbus, Ohio

April 1, 2019

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**NORTHWOOD LOCAL SCHOOL DISTRICT
WOOD COUNTY
AUDIT REPORT
For the Year Ending June 30, 2018**

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Charles E. Harris & Associates, Inc.
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

Northwood Local School District
Wood County
500 Lemoyne Road
Northwood, Ohio 43619

To the Board of Education:

Report on the Financial Statements

We have audited the accompanying cash basis financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Northwood Local School District, Wood County, Ohio (the District), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the cash basis of accounting described in Note 2; this includes determining that the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Northwood Local School District, Wood County, Ohio, as of June 30, 2018, and the respective changes in cash basis financial position and the budgetary comparison for the General Fund thereof for the year then ended in accordance with the cash basis of accounting described in Note 2.

Basis of Accounting

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

Emphasis of Matter

As discussed in Note 3 to the financial statements, during the year ended June 30, 2018, the District adopted new guidance in Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. We did not modify our opinion regarding this matter.

Other Matters

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The management's discussion and analysis, as listed in the table of contents, which is the responsibility of management, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 14, 2018, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



Charles E. Harris & Associates, Inc.
December 14, 2018

**NORTHWOOD LOCAL SCHOOL DISTRICT
WOOD COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018
(UNAUDITED)**

The Management's Discussion and Analysis of the Northwood Local School District's (the "District") financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2018, within the limitations of the District's cash basis of accounting. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the cash basis financial statements and the notes to the financial statements to enhance their understanding of the District's financial performance.

Financial Highlights

Key financial highlights for fiscal year 2018 are as follows:

- The total net cash position of the District decreased \$8,258,002 or 46.28% from fiscal year 2017.
- General cash receipts accounted for \$11,353,809, or 78.98% of all governmental activities cash receipts. Program specific cash receipts in the form of charges for services and sales, grants and contributions accounted for \$3,022,229 or 21.02% of total governmental activities cash receipts of \$14,376,038.
- The District had \$22,634,040 in cash disbursements related to governmental activities; \$3,022,229 of these cash disbursements were offset by program specific charges for services, grants or contributions. General cash receipts supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$11,353,809 were not adequate to provide for these programs.
- The District's major governmental funds are the general fund, permanent improvement fund, building fund, and classroom facilities fund. The general fund had \$12,099,031 in cash receipts and \$12,119,986 in cash disbursements and other financing uses. During fiscal year 2018 the general fund cash balance decreased \$20,955 from \$4,481,858 to \$4,460,903.
- The permanent improvement fund had \$605,760 in cash receipts and \$399,869 in cash disbursements and other financing uses. During fiscal year 2018, the permanent improvement fund cash balance increased \$205,891 from \$2,203,705 to \$2,409,596.
- The building fund had \$26,648 in cash receipts and \$2,968,096 in cash disbursements. During fiscal year 2018, the building fund cash balance decreased \$2,941,448 from \$4,421,978 to \$1,480,530.
- The classroom facilities fund had \$58,953 in cash receipts and \$5,875,657 in cash disbursements. During fiscal year 2018, the classroom facilities fund cash balance decreased \$5,816,704 from \$6,697,482 to \$880,778.

Using the Cash Basis Basic Financial Statements (BFS)

This annual report is presented in a format consistent with the presentation requirements of the Governmental Accounting Standards Board (GASB) Statement No. 34, as applicable to the District's cash basis of accounting.

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

**NORTHWOOD LOCAL SCHOOL DISTRICT
WOOD COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018
(UNAUDITED)

Reporting the District as a Whole

Statement of Net Position and the Statement of Activities

The statement of net position - cash basis and the statement of activities - cash basis answer the question, "How did we do financially during fiscal year 2018?" These statements include only net position using the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. This basis of accounting takes into account only the current year's receipts and disbursements if the cash is actually received or paid.

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

As a result of the use of the cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not collected) and liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

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

The District's statement of net position - cash basis and statement of activities - cash basis can be found on pages 13-14 of this report.

Reporting the District's Most Significant Funds

Fund Financial Statements

The analysis of the District's major governmental funds begins on page 10. Fund financial reports provide detailed information about the District's major funds. The District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the District's most significant funds. The District's major governmental funds are the general fund, permanent improvement fund, building fund, and the classroom facilities fund.

Governmental Funds

Most of the District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. The governmental fund statements provide a detailed view of the District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer cash basis financial resources that can be readily spent to finance various District programs.

**NORTHWOOD LOCAL SCHOOL DISTRICT
WOOD COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018
(UNAUDITED)

Since the District is reporting on the cash basis of accounting, there are no differences in the net cash position and fund cash balances or changes in net cash position and changes in fund cash balances.

Therefore, no reconciliation is necessary between such financial statements. The governmental fund statements can be found on pages 15-19 of this report.

Reporting the District's Fiduciary Responsibilities

The District is the trustee, or fiduciary, for its scholarship programs. These activities are presented as private-purpose trust funds. The District also acts in a trustee capacity as an agent for individuals or other entities. These activities are reported in agency funds. All of the District's fiduciary activities are reported in separate statements of fiduciary net position - cash basis and changes in fiduciary net position - cash basis on pages 20 and 21. These activities are excluded from the District's other financial statements because the assets cannot be utilized by the District to finance its operations.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 22-58 of this report.

The District as a Whole

Recall that the statement of net position - cash basis provides the perspective of the District as a whole.

The table below provides a summary of the District's net cash position at June 30, 2018 and 2017.

Net Cash Position

	Governmental Activities <u>2018</u>	Governmental Activities <u>2017</u>
<u>Assets</u>		
Equity in pooled cash and cash equivalents	\$ 9,586,960	\$ 17,844,962
Total assets	<u>\$ 9,586,960</u>	<u>\$ 17,844,962</u>
<u>Net cash position</u>		
Restricted	\$ 5,208,461	\$ 13,569,281
Unrestricted	<u>4,378,499</u>	<u>4,275,681</u>
Total net cash position	<u>\$ 9,586,960</u>	<u>\$ 17,844,962</u>

At June 30, 2018, the District's net cash position was \$9,586,960. A portion of this amount, \$5,208,461 represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net cash position of \$4,378,499 may be used to meet the District's ongoing obligations to the students and creditors. The decrease in net cash position is due to the increase in expenditures for the school facilities improvement project.

**NORTHWOOD LOCAL SCHOOL DISTRICT
WOOD COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018
(UNAUDITED)

The following table shows the change in net cash position for fiscal years 2018 and 2017.

	Change in Net Cash Position	
	Governmental Activities	Governmental Activities
	<u>2018</u>	<u>2017</u>
<u>Cash receipts</u>		
Program cash receipts:		
Charges for services and sales	\$ 1,906,304	\$ 1,455,756
Operating grants and contributions	1,115,925	1,049,864
General cash receipts:		
Property taxes	6,296,210	6,043,690
Payment in lieu of taxes	440,079	486,476
Income taxes	343,483	240,873
Grants and entitlements	3,994,172	6,926,702
Investment earnings	165,930	186,212
Miscellaneous	<u>113,935</u>	<u>237,024</u>
Total cash receipts	<u>14,376,038</u>	<u>16,626,597</u>

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**NORTHWOOD LOCAL SCHOOL DISTRICT
WOOD COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018
(UNAUDITED)

Change in Net Assets (Continued)

	<u>Governmental Activities 2018</u>	<u>Governmental Activities 2017</u>
<u>Cash disbursements:</u>		
Current:		
Instruction:		
Regular	5,052,561	4,814,749
Special	1,831,862	1,536,379
Vocational	114,682	113,018
Other	7,797	19,756
Support services:		
Pupil	530,703	465,939
Instructional staff	735,534	694,012
Board of education	20,642	14,142
Administration	934,624	1,070,929
Fiscal	467,786	406,794
Business	1,715	-
Operations and maintenance	1,078,827	926,359
Pupil transportation	588,115	574,216
Central	230,570	221,605
Food service operations	493,148	461,891
Extracurricular activities	513,529	486,178
Facilities acquisition and construction	8,981,848	24,316,224
Debt service:		
Principal retirement	300,000	425,000
Interest and fiscal charges	750,097	988,462
Total cash disbursements	<u>22,634,040</u>	<u>37,535,653</u>
Change in net cash position	(8,258,002)	(20,909,056)
Net cash position at beginning of year	<u>17,844,962</u>	<u>38,754,018</u>
Net cash position at end of year	<u>\$ 9,586,960</u>	<u>\$ 17,844,962</u>

Governmental Activities

Net cash position of the District's governmental activities decreased \$8,258,002. Total governmental cash disbursements of \$22,634,040 were offset by program cash receipts of \$3,022,229 and general cash receipts of \$11,353,809. Program cash receipts supported 13.35% of the total governmental disbursements in fiscal year 2018, compared to 6.68% in the previous year. The primary factor for the decrease was due to an increase in total government disbursements.

The primary sources of receipts for governmental activities are derived from property taxes and unrestricted grants and entitlements. These sources represent 71.58% of total governmental cash receipts. The increase in income taxes is mostly due to the significant collection of previous years delinquencies.

The largest cash disbursement of the District is for facilities acquisition and construction. Facilities acquisition and construction disbursements totaled \$8,981,848 or 39.68% of total governmental disbursements for fiscal year 2018.

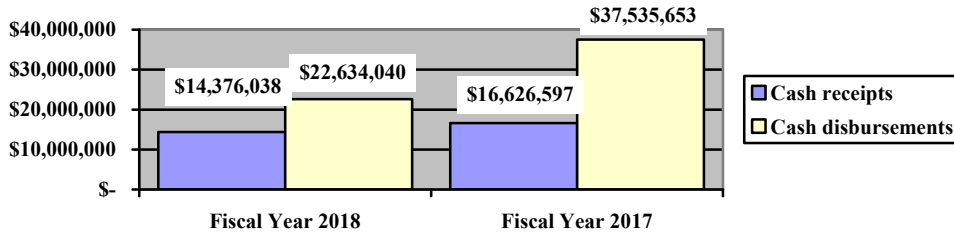
**NORTHWOOD LOCAL SCHOOL DISTRICT
WOOD COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018
(UNAUDITED)

The decrease in disbursements is due the decrease in facilities acquisition and construction disbursements for the school facilities improvement project.

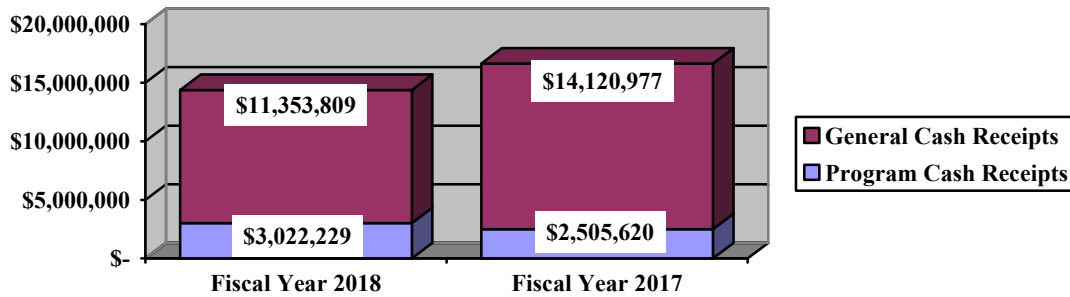
The graph below presents the District's cash receipts and cash disbursements for fiscal years 2018 and 2017.

Governmental Activities - Cash Receipts and Cash Disbursements



The graph below presents the District's governmental activities cash receipts for the fiscal years 2018 and 2017.

Governmental Activities - General and Program Cash Receipts



The statement of activities shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax receipts and unrestricted State grants and entitlements.

**NORTHWOOD LOCAL SCHOOL DISTRICT
WOOD COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018
(UNAUDITED)

Governmental Activities

	Total Cost of Services <u>2018</u>	Net Cost of Services <u>2018</u>	Total Cost of Services <u>2017</u>	Net Cost of Services <u>2017</u>
Program cash disbursements				
Instruction:				
Regular	\$ 5,052,561	\$ 3,587,595	\$ 4,814,749	\$ 3,588,268
Special	1,831,862	1,032,167	1,536,379	892,564
Vocational	114,682	111,166	113,018	109,502
Other	7,797	7,797	19,756	19,756
Support services:				
Pupil	530,703	456,427	465,939	426,310
Instructional staff	735,534	735,534	694,012	689,826
Board of education	20,642	20,642	14,142	14,142
Administration	934,624	933,688	1,070,929	1,069,691
Fiscal	467,786	467,786	406,794	406,794
Business	1,715	1,715	-	-
Operations and maintenance	1,078,827	1,078,827	926,359	926,359
Pupil transportation	588,115	575,648	574,216	558,006
Central	230,570	226,970	221,605	221,605
Food service operations	493,148	11,620	461,891	28,800
Other non-instructional services:				
Extracurricular activities	513,529	332,284	486,178	348,724
Facilities acquisition and construction	8,981,848	8,981,848	24,316,224	24,316,224
Debt service:				
Principal retirement	300,000	300,000	425,000	425,000
Interest and fiscal charges	<u>750,097</u>	<u>750,097</u>	<u>988,462</u>	<u>988,462</u>
 Total cash disbursements	 <u>\$ 22,634,040</u>	 <u>\$ 19,611,811</u>	 <u>\$ 37,535,653</u>	 <u>\$ 35,030,033</u>

The dependence upon general cash receipts for governmental activities is apparent; with 86.65% and 93.32% of cash disbursements supported through taxes and other general cash receipts during fiscal years 2018 and 2017, respectively.

**NORTHWOOD LOCAL SCHOOL DISTRICT
WOOD COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018
(UNAUDITED)

The District's Funds

The District's governmental funds reported a combined fund cash balance of \$9,586,960 which is \$8,258,002 lower than last year's total of \$17,844,962. The schedule below indicates the fund cash balance and the total change in fund cash balance as of June 30, 2018 and June 30, 2017, for all major and nonmajor governmental funds.

	Fund Cash Balance <u>June 30, 2018</u>	Fund Cash Balance <u>June 30, 2017</u>	Increase <u>(Decrease)</u>
General	\$ 4,460,903	\$ 4,481,858	\$ (20,955)
Permanent Improvement	2,409,596	2,203,705	205,891
Building	1,480,530	4,421,978	(2,941,448)
Classroom facilities	880,778	6,697,482	(5,816,704)
Nonmajor governmental	<u>355,153</u>	<u>39,939</u>	<u>315,214</u>
Total	<u>\$ 9,586,960</u>	<u>\$ 17,844,962</u>	<u>\$ (8,258,002)</u>

General Fund

The table that follows assists in illustrating the cash receipts and disbursements of the general fund.

	2018 <u>Amount</u>	2017 <u>Amount</u>	Increase <u>(Decrease)</u>
<u>Cash receipts</u>			
Taxes	\$ 5,885,171	\$ 5,584,209	\$ 300,962
Tuition	1,576,433	1,128,715	447,718
Intergovernmental	4,353,193	4,408,098	(54,905)
Other revenues	<u>284,234</u>	<u>283,668</u>	<u>566</u>
Total	<u>\$ 12,099,031</u>	<u>\$ 11,404,690</u>	<u>\$ 694,341</u>
<u>Cash disbursements</u>			
Instruction	\$ 6,711,100	\$ 6,147,878	\$ 563,222
Support services	4,454,680	4,305,277	149,403
Extracurricular activities	351,531	337,940	13,591
Facilities acquisition and construction	36,350	3,719	32,631
Debt service	<u>-</u>	<u>610,431</u>	<u>(610,431)</u>
Total	<u>\$ 11,553,661</u>	<u>\$ 11,405,245</u>	<u>\$ 148,416</u>

The increased in taxes were primarily due to an increase in income tax receipts that resulted from a significant amount of delinquencies being collected from prior fiscal years. Tuition receipts increased due to an increase in the amount of special education tuition and increased open enrollment.

The increase in instructional services disbursements was due to an increase in special instructional costs.

**NORTHWOOD LOCAL SCHOOL DISTRICT
WOOD COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018
(UNAUDITED)

Permanent Improvement Fund

The District's permanent improvement fund is reported as a major fund. This fund accounts for the accumulation of resources to be used for the permanent improvement of school facilities. The permanent improvement fund had \$605,760 in cash receipts and \$399,869 in cash disbursements and other financing uses. During fiscal year 2018, the permanent improvement fund cash balance increased from \$2,203,705 to \$2,409,596.

Building Fund

The District's building fund is reported as a major fund. This fund accounts for the accumulation of resources to be used for construction and improvement of school facilities. The building fund had \$26,648 in cash receipts and \$2,968,096 in cash disbursements. During fiscal year 2018, the building fund cash balance decreased from \$4,421,978 to \$1,480,530.

Classroom Facilities Fund

The District's classroom facilities fund is reported as a major fund. This fund accounts for the accumulation of resources to be used for construction and improvement of school facilities. The classroom facilities fund had \$58,953 in cash receipts and \$5,875,657 in cash disbursements. During fiscal year 2018, the classroom facilities fund cash balance decreased from \$6,697,482 to \$880,778.

General Fund Budgeting Highlights

The District's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The most significant budgeted fund is the general fund.

For the general fund, final budgetary basis receipts and other financing sources were \$12,830,852, which was above original budget estimates of \$11,049,114. The actual budgetary basis receipts and other financing sources of \$12,095,018 were less than the final budget estimate by \$735,834. The original budgetary basis disbursements and other financing uses of \$13,929,456 were increased to \$14,943,093 in the final budget. The actual budgetary basis disbursements were \$12,842,846, or \$2,100,247 less than the final budgeted amount as the District realized savings in nearly all general fund programs.

Capital Assets and Debt Administration

Capital Assets

The District does not record capital assets in the accompanying cash basis basic financial statements, but records payments for capital assets as disbursements. The District had facilities acquisition and construction disbursements of \$8,981,848 during fiscal year 2018.

**NORTHWOOD LOCAL SCHOOL DISTRICT
WOOD COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018
(UNAUDITED)

Debt Administration

The following table summarizes the debt obligations outstanding.

Outstanding Debt, at Year End

	Governmental Activities <u>2018</u>	Governmental Activities <u>2017</u>
General obligation bonds	\$ 13,875,915	\$ 14,138,659
Certification of participation	<u>11,995,000</u>	<u>11,995,000</u>
Total	<u>\$ 25,870,915</u>	<u>\$ 26,133,659</u>

Refer to Note 8 to the basic financial statements for detail on the District's long-term debt.

Current Issues

Fiscal year 2018 had income tax collections on target from the original projections. The District is once again showing positive cash balances at the end of each fiscal year for the life of the forecast. However, deficit spending appears to grow each year.

Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information contact Ms. Angel Adamski, Treasurer, Northwood Local School District, 600 Lemoyne Road, Northwood, Ohio 43619.

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**NORTHWOOD LOCAL SCHOOL DISTRICT
WOOD COUNTY, OHIO**

STATEMENT OF NET POSITION - CASH BASIS
JUNE 30, 2018

	Governmental Activities
Assets:	
Equity in pooled cash, cash equivalents, and investments.	\$ 9,586,960
Total assets.	\$ 9,586,960
Net cash position:	
Restricted for:	
Capital projects	\$ 4,770,904
Classroom facilities maintenance	233,672
Debt service.	84,796
Locally funded programs	11,652
Student activities	52,724
Other purposes	54,713
Unrestricted	4,378,499
Total net cash position.	\$ 9,586,960

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**NORTHWOOD LOCAL SCHOOL DISTRICT
WOOD COUNTY, OHIO**

STATEMENT OF ACTIVITIES - CASH BASIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

	Program Cash Receipts			Net (Disbursements) Receipts and Changes in Net Cash Position
	Cash Disbursements	Charges for Services and Sales	Operating Grants Contributions and Interest	Governmental Activities
Governmental activities:				
Instruction:				
Regular	\$ 5,052,561	\$ 1,445,261	\$ 19,705	\$ (3,587,595)
Special	1,831,862	181,019	618,676	(1,032,167)
Vocational	114,682	-	3,516	(111,166)
Other	7,797	-	-	(7,797)
Support services:				
Pupil	530,703	-	74,276	(456,427)
Instructional staff	735,534	-	-	(735,534)
Board of education	20,642	-	-	(20,642)
Administration	934,624	-	936	(933,688)
Fiscal	467,786	-	-	(467,786)
Business	1,715	-	-	(1,715)
Operations and maintenance	1,078,827	-	-	(1,078,827)
Pupil transportation	588,115	-	12,467	(575,648)
Central	230,570	-	3,600	(226,970)
Operation of non-instructional services:				
Food service operations	493,148	147,050	334,478	(11,620)
Extracurricular activities	513,529	132,974	48,271	(332,284)
Facilities acquisition and construction	8,981,848	-	-	(8,981,848)
Debt service:				
Principal retirement	300,000	-	-	(300,000)
Interest and fiscal charges	750,097	-	-	(750,097)
Total governmental activities	\$ 22,634,040	\$ 1,906,304	\$ 1,115,925	(19,611,811)

General cash receipts:	
Property taxes levied for:	
General purposes	5,541,688
Debt service	568,840
Permanent improvements	185,682
Payment in lieu of taxes	440,079
Income taxes levied for:	
General purposes	343,483
Grants and entitlements not restricted	
to specific programs	3,994,172
Investment earnings	165,930
Miscellaneous	113,935
Total general cash receipts	11,353,809
Change in net cash position	(8,258,002)
Net cash position at beginning of year	17,844,962
Net cash position at end of year	\$ 9,586,960

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**NORTHWOOD LOCAL SCHOOL DISTRICT
WOOD COUNTY, OHIO**

STATEMENT OF ASSETS AND FUND BALANCES - CASH BASIS
GOVERNMENTAL FUNDS
JUNE 30, 2018

	<u>General</u>	<u>Permanent Improvement</u>	<u>Building</u>	<u>Classroom Facilities</u>
Assets:				
Equity in pooled cash, cash equivalents, and investments.	\$ 4,460,903	\$ 2,409,596	\$ 1,480,530	\$ 880,778
Total assets	<u>\$ 4,460,903</u>	<u>\$ 2,409,596</u>	<u>\$ 1,480,530</u>	<u>\$ 880,778</u>
Fund cash balances:				
Restricted:				
Debt service	-	-	-	-
Capital improvements	-	2,409,596	1,480,530	880,778
Classroom facilities maintenance	-	-	-	-
Food service operations	-	-	-	-
Other purposes	-	-	-	-
Extracurricular activities.	-	-	-	-
Committed:				
Future severance payments.	82,890	-	-	-
Assigned:				
Student instruction	31,923	-	-	-
Student and staff support.	255,722	-	-	-
Extracurricular activities	2,326	-	-	-
Facilities acquisition and construction	47,907	-	-	-
School supplies	218	-	-	-
Subsequent year appropriations	3,593,606	-	-	-
Debt service	446,266	-	-	-
Educational activities.	45	-	-	-
Unassigned (deficit).	-	-	-	-
Total fund cash balances	<u>\$ 4,460,903</u>	<u>\$ 2,409,596</u>	<u>\$ 1,480,530</u>	<u>\$ 880,778</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ 355,153	\$ 9,586,960
<u>\$ 355,153</u>	<u>\$ 9,586,960</u>
84,796	84,796
-	4,770,904
233,672	233,672
54,713	54,713
11,652	11,652
52,724	52,724
-	82,890
-	31,923
-	255,722
-	2,326
-	47,907
-	218
-	3,593,606
-	446,266
-	45
(82,404)	(82,404)
<u>\$ 355,153</u>	<u>\$ 9,586,960</u>

**NORTHWOOD LOCAL SCHOOL DISTRICT
WOOD COUNTY, OHIO**

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN FUND BALANCES - CASH BASIS
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

	<u>General</u>	<u>Permanent Improvement</u>	<u>Building</u>	<u>Classroom Facilities</u>
Cash receipts:				
From local sources:				
Property taxes	\$ 5,541,688	\$ 185,682	\$ -	\$ -
Income taxes	343,483	-	-	-
Payment in lieu of taxes	40,123	399,956	-	-
Tuition	1,576,433	-	-	-
Earnings on investments	80,329	-	26,648	58,953
Charges for services	-	-	-	-
Extracurricular	9,820	-	-	-
Classroom materials and fees	25,185	-	-	-
Rental income	5,175	-	-	-
Contributions and donations	18,124	-	-	-
Other local revenues	105,478	-	-	-
Intergovernmental - state	4,326,876	20,122	-	-
Intergovernmental - federal	26,317	-	-	-
Total revenues	<u>12,099,031</u>	<u>605,760</u>	<u>26,648</u>	<u>58,953</u>
Cash disbursements:				
Current:				
Instruction:				
Regular	5,019,387	-	-	-
Special	1,569,234	-	-	-
Vocational	114,682	-	-	-
Other	7,797	-	-	-
Support services:				
Pupil	427,525	-	-	-
Instructional staff	735,534	-	-	-
Board of education	20,642	-	-	-
Administration	933,324	-	-	-
Fiscal	456,428	1,213	3,622	3,605
Business	1,715	-	-	-
Operations and maintenance	1,078,827	-	-	-
Pupil transportation	588,115	-	-	-
Central	212,570	-	-	-
Operation of non-instructional services:				
Food service operations	-	-	-	-
Extracurricular activities	351,531	-	-	-
Facilities acquisition and construction	36,350	108,972	2,964,474	5,872,052
Debt service:				
Principal retirement	-	-	-	-
Interest and fiscal charges	-	231,266	-	-
Total cash disbursements	<u>11,553,661</u>	<u>341,451</u>	<u>2,968,096</u>	<u>5,875,657</u>
Excess (deficiency) of revenues over (under) expenditures	<u>545,370</u>	<u>264,309</u>	<u>(2,941,448)</u>	<u>(5,816,704)</u>
Other financing sources (uses):				
Transfers in	-	-	-	-
Transfers (out)	<u>(566,325)</u>	<u>(58,418)</u>	<u>-</u>	<u>-</u>
Total other financing sources (uses)	<u>(566,325)</u>	<u>(58,418)</u>	<u>-</u>	<u>-</u>
Net change in fund cash balances	(20,955)	205,891	(2,941,448)	(5,816,704)
Fund cash balances at beginning of year	<u>4,481,858</u>	<u>2,203,705</u>	<u>4,421,978</u>	<u>6,697,482</u>
Fund cash balances at end of year	<u>\$ 4,460,903</u>	<u>\$ 2,409,596</u>	<u>\$ 1,480,530</u>	<u>\$ 880,778</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

Nonmajor Governmental Funds	Total Governmental Funds
\$ 568,840	\$ 6,296,210
-	343,483
-	440,079
-	1,576,433
-	165,930
147,050	147,050
132,974	142,794
-	25,185
-	5,175
36,563	54,687
24,611	130,089
19,735	4,366,733
655,873	682,190
<u>1,585,646</u>	<u>14,376,038</u>
33,174	5,052,561
262,628	1,831,862
-	114,682
-	7,797
103,178	530,703
-	735,534
-	20,642
1,300	934,624
2,918	467,786
-	1,715
-	1,078,827
-	588,115
18,000	230,570
493,148	493,148
161,998	513,529
-	8,981,848
300,000	300,000
518,831	750,097
<u>1,895,175</u>	<u>22,634,040</u>
<u>(309,529)</u>	<u>(8,258,002)</u>
624,743	624,743
-	(624,743)
<u>624,743</u>	<u>-</u>
315,214	(8,258,002)
39,939	17,844,962
<u>\$ 355,153</u>	<u>\$ 9,586,960</u>

**NORTHWOOD LOCAL SCHOOL DISTRICT
WOOD COUNTY, OHIO**

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL - BUDGETARY BASIS
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>(Negative)</u>
Budgetary basis receipts:				
From local sources:				
Property taxes	\$ 5,378,200	\$ 5,537,979	\$ 5,541,688	\$ 3,709
Income taxes	250,000	343,483	343,483	-
Payment in lieu of taxes	40,123	40,123	40,123	-
Tuition	1,075,000	1,581,342	1,576,433	(4,909)
Earnings on investments	60,000	82,000	80,329	(1,671)
Classroom materials and fees	17,500	16,905	17,122	217
Rental income	-	5,175	5,175	-
Contributions and donations	-	8,457	8,457	-
Other local revenues	1,377	60,115	61,779	1,664
Intergovernmental - state	4,198,914	4,384,189	4,326,876	(57,313)
Intergovernmental - federal	3,000	26,317	26,317	-
Total budgetary basis receipts	<u>11,024,114</u>	<u>12,086,085</u>	<u>12,027,782</u>	<u>(58,303)</u>
Budgetary basis disbursements:				
Current:				
Instruction:				
Regular	5,381,919	5,396,303	5,043,622	352,681
Special	1,422,644	1,833,833	1,573,485	260,348
Vocational	129,498	123,653	114,995	8,658
Other	16,529	15,400	7,797	7,603
Support services:				
Pupil	480,959	460,514	428,850	31,664
Instructional staff	766,913	905,394	738,663	166,731
Board of education	22,835	29,775	20,673	9,102
Administration	1,234,650	1,147,316	944,666	202,650
Fiscal	774,109	723,733	466,351	257,382
Business	46,152	43,000	1,715	41,285
Operations and maintenance	1,442,695	1,609,151	1,163,130	446,021
Pupil transportation	668,811	632,350	665,813	(33,463)
Central	289,356	227,520	222,886	4,634
Other operation of non-instructional services	-	1,000	-	1,000
Extracurricular activities	480,963	448,610	353,353	95,257
Facilities acquisition and construction	88,432	89,892	84,257	5,635
Debt service:				
Principal	214,663	215,000	215,000	-
Interest and fiscal charges	268,328	462,531	231,265	231,266
Total budgetary basis disbursements	<u>13,729,456</u>	<u>14,364,975</u>	<u>12,276,521</u>	<u>2,088,454</u>
Excess (deficiency) of budgetary basis receipts over (under) budgetary basis disbursements	<u>(2,705,342)</u>	<u>(2,278,890)</u>	<u>(248,739)</u>	<u>2,030,151</u>
Other financing sources (uses):				
Refund of prior year's expenditures	20,000	52,423	52,423	-
Transfers in	-	677,531	-	(677,531)
Transfers (out)	(200,000)	(578,118)	(566,325)	11,793
Sale of capital assets	5,000	14,813	14,813	-
Total other financing sources (uses)	<u>(175,000)</u>	<u>166,649</u>	<u>(499,089)</u>	<u>(665,738)</u>
Net change in fund cash balance	(2,880,342)	(2,112,241)	(747,828)	1,364,413
Fund cash balance at beginning of year	4,186,806	4,186,806	4,186,806	-
Prior year encumbrances appropriated	229,197	229,197	229,197	-
Fund cash balance at end of year	<u>\$ 1,535,661</u>	<u>\$ 2,303,762</u>	<u>\$ 3,668,175</u>	<u>\$ 1,364,413</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**NORTHWOOD LOCAL SCHOOL DISTRICT
WOOD COUNTY, OHIO**

STATEMENT OF FIDUCIARY NET POSITION - CASH BASIS
FIDUCIARY FUNDS
JUNE 30, 2018

	Private Purpose Trust	
	Scholarship	Agency
Assets:		
Current assets:		
Equity in pooled cash and cash equivalents	\$ 103,280	\$ 37,550
Total assets.	\$ 103,280	\$ 37,550
Net cash position:		
Held in trust for scholarships	\$ 103,280	\$ -
Held for students.	-	37,550
Total net cash position	\$ 103,280	\$ 37,550

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**NORTHWOOD LOCAL SCHOOL DISTRICT
WOOD COUNTY, OHIO**

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION - CASH BASIS
FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

	Private Purpose Trust
	Scholarship
Additions:	
Interest	\$ 9,584
Gifts and contributions	10,080
Total additions.	19,664
 Deductions:	
Scholarships awarded	10,101
Change in net cash position	9,563
Net cash position at beginning of year. . .	93,717
Net cash position at end of year	\$ 103,280

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**NORTHWOOD LOCAL SCHOOL DISTRICT
WOOD COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT

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

The District was established in 1964. It is located in Wood County. The District is staffed by 45 classified employees, 64 certified teaching personnel and 11 administrative employees who provide services to 823 students and other community members. The District currently operates three instructional buildings.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

As discussed in Note 2.B., these financial statements are presented on the cash basis of accounting. The cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements. In cases where these cash basis statements contain items that are the same as, or similar to, those items in financial statements prepared in conformity with GAAP, similar informative disclosures are provided.

A. Reporting Entity

The reporting entity has been defined in accordance with GASB Statement No. 14, "The Financial Reporting Entity" as amended by GASB Statement No. 39, "Determining Whether Certain Organizations Are Component Units" and GASB Statement No. 61, "The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34". The reporting entity is composed of the primary government and component units. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the District. For the District, this includes general operations, food service, and student related activities of the District.

Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the organization's Governing Board and (1) the District is able to significantly influence the programs or services performed or provided by the organization; or (2) the District is legally entitled to or can otherwise access the organization's resources; or (3) the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or (4) the District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the District in that the District approves the budget, the issuance of debt or the levying of taxes. Certain organizations are also included as component units if the nature and significance of the relationship between the primary government and the organization is such that exclusion by the primary government would render the primary government's financial statements incomplete or misleading. Based upon the application of these criteria, the District has no component units. The basic financial statements of the reporting entity include only those of the District (the primary government).

**NORTHWOOD LOCAL SCHOOL DISTRICT
WOOD COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

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

The following organizations are described due to their relationship to the District:

JOINTLY GOVERNED ORGANIZATIONS

Northern Ohio Educational Computer Association

The Northern Ohio Educational Computer Association (NOECA) is a jointly governed organization among forty-one 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 the administrative and instructional functions among member districts. Each of the governments of these schools supports NOECA based upon a per pupil charge dependent upon the software package utilized. The NOECA assembly consists of a superintendent from each participating school district and a representative from the fiscal agent. NOECA is governed by a Board of Directors chosen from the general membership of the NOECA assembly. The Board of Directors consists of a representative from the fiscal agent, the chairman of each of the operating committees, and two assembly members from each county in which participating school districts are limited to its representation on the Board. The District paid \$17,866 to NOECA in fiscal year 2018 for services. Financial information can be obtained by contacting NOECA, at 2900 South Columbus Avenue, Sandusky, Ohio 44870.

Penta Career Center

The Penta Career Center (the "Center") is a distinct political subdivision of the State of Ohio which provides vocational education to students. The Center is operated under the direction of a Board consisting of nine members from the participating school districts' elected Boards. The Board consists of one representative from each exempted village and/or city school district: Bowling Green, Maumee, Perrysburg and Rossford; one representative from each of the three least populous counties: Fulton, Ottawa and Sandusky; and one representative from each of the most populous counties: Lucas and Wood. The Center's Board possesses its own budgeting and taxing authority. Financial information can be obtained from Penta Career Center, 9301 Buck Road, Perrysburg, Ohio 43551.

Northwestern Ohio Educational Research Council

The Northwestern Ohio Educational Research Council (NOERC) is a jointly governed organization formed to bring educational entities into a better understanding of their common educational problems, facilitate and conduct practical educational research, coordinate educational research among members, provide a means for evaluating and disseminating the results of research, serve as a repository for research and legislative materials, and provide opportunities for training. The NOERC serves a twenty-five county area in Northwest Ohio. The Board of Directors consists of superintendents from two educational service centers, two exempted village school districts, five local school districts and five city school districts, as well as representatives from two private or parochial schools and three institutions of higher education. Each active member is entitled to one vote on all issues addressed by the Board of Directors. Financial information can be obtained from the Northwestern Ohio Educational Research Council, Box 456, Ashland, Ohio, 44805.

**NORTHWOOD LOCAL SCHOOL DISTRICT
WOOD COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

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

INSURANCE PURCHASING POOLS

Ohio School Plan

The District participates in the Ohio School Plan (the “Plan”), an insurance purchasing pool established under Section 2744.081 of the Ohio Revised Code. The Plan is an unincorporated nonprofit association of its members which enables the participants to provide for a formalized joint insurance purchasing program for maintaining adequate insurance protection and provides risk management programs and other administrative services. The Plan’s business and affairs are conducted by a fifteen-member board consisting of superintendents, treasurers, the president of Harcum-Shuett Insurance Agency, Inc. and a member of the Hylant Group, Inc. The Hylant Group, Inc. is the Plan’s administrator and is responsible for processing claims. Harcum-Shuett Insurance Agency serves as the sales and marketing representative which established agreements between the Plan and its members. Financial information can be obtained from the Harcum-Shuett Insurance Agency, 246 East Sycamore Street, Columbus, Ohio 43206.

Wood County School Benefit Plan Association

The District participates in the Wood County Schools Benefit Plan Association (the “Association”); a public entity shared risk pool consisting of six local school districts, two exempted village school districts, a city school district, a joint vocational school, and an educational service center. The Association is organized as a Voluntary Employee Benefits Association under Section 501(c)(9) of the Internal Revenue Code and provides medical, dental and other benefits to the employees of the participating members. Each participating member’s superintendent is appointed to an Administrative Committee which advises the Trustee, Huntington Bank, concerning aspects of the administration of the Association.

Each member decides which plans offered by the Administrative Committee will be extended to its employees. Participation in the Association is by written application subject to acceptance by the Administrative Committee and payment of the monthly premiums. Financial information can be obtained from Medical Mutual of Ohio, P.O. Box 943, Toledo, Ohio 43656.

Ohio Association of School Business Officials Workers’ Compensation Group Rating Program

The District participates in the Ohio Association of School Business Officials (OASBO) Workers’ Compensation Group Rating Program (GRP). The GRP is sponsored by OASBO and administered by CompManagement, Inc. The intent of the GRP is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the GRP. The District pays a fee to the GRP to cover the costs of administering the program.

B. Basis of Accounting

Although required by Ohio Administrative Code § 117-2-03(B) to prepare its annual financial report in accordance with GAAP, the District chooses to prepare its financial statements and notes on the cash basis of accounting. The cash basis of accounting is a comprehensive basis of accounting other than GAAP. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred.

Budgetary presentations report budgetary cash disbursements when a commitment is made (i.e. when an encumbrance is approved). The difference between disbursements reported in the fund and entity wide statements and disbursements reported in the budgetary statements are due to current year encumbrances being added to disbursements reported on the budgetary statements.

**NORTHWOOD LOCAL SCHOOL DISTRICT
WOOD COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

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

These statements include adequate disclosure of material matters, in accordance with the cash basis of accounting.

C. Fund Accounting

The District uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self balancing set of accounts. There are three categories of funds: governmental, proprietary and fiduciary. The District has no proprietary funds.

GOVERNMENTAL FUNDS

The District classifies funds financed primarily from taxes, intergovernmental receipts (e.g. grants) and other non-exchange transactions as governmental funds. The following are the District's major governmental funds:

General fund - The general fund is used to account for and report all financial resources not accounted for and reported in another fund. The general fund balance is available for any purpose provided it is disbursed or transferred according to the general laws of Ohio.

Permanent Improvement fund - The permanent improvement fund is used to account for resources that are restricted for the acquisition, construction or improvement of permanent assets. The fund balance of this fund is restricted for capital improvements.

Building fund - The building fund is used to account for resources that are restricted for the acquisition, construction or improvement of capital facilities and for acquisition of capital assets. The fund balance of this fund is restricted for capital improvements.

Classroom facilities fund - The classroom facilities capital projects fund is used to account for monies received and expended in connection with contracts entered into by the District and the Ohio Facilities Construction Commission (OFCC) for the building and equipping of classroom facilities.

Other governmental funds of the District are used to account for (a) specific cash receipt sources that are restricted or committed to a disbursement for specified purposes other than debt service or capital projects and (b) financial resources that are restricted, committed, or assigned to disbursements for principal and interest.

FIDUCIARY FUNDS

Fiduciary fund reporting focuses on net cash assets and changes in net cash assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to account for cash assets held by the District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the District's own programs. The District's private purpose trust funds account for programs that provide college scholarships for students after graduation. Agency funds are custodial in nature and do not involve measurement of results of operations. The District's agency fund accounts for student-managed activities.

**NORTHWOOD LOCAL SCHOOL DISTRICT
WOOD COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

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

D. Basis of Presentation

Government-wide Financial Statements - The statement of net position - cash basis and the statement of activities - cash basis display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds.

The government-wide statement of activities - cash basis compares disbursements with program receipts for each function or program of the District's governmental activities. These disbursements are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program receipts include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Receipts which are not classified as program receipts are presented as general receipts of the District. The comparison of direct disbursements with program receipts identifies the extent to which each business segment or governmental function is self-financing on the cash basis or draws from the general receipts of the District.

Fund Financial Statements - Fund financial statements report detailed information about the District. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column, and all nonmajor funds are aggregated into one column. Fiduciary funds are reported by fund type.

E. Budgets

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriation resolution, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriation resolution are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified.

All funds, other than agency funds, are legally required to be budgeted and appropriated. The District budgets and appropriates its agency funds. The primary level of budgetary control is at the fund, object level for the general fund, and the fund level for all other funds. Any budgetary modifications at this level may only be made by resolution of the Board of Education.

1. Tax Budget

Prior to January 15, the Superintendent and Treasurer submit to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing for all funds. Public hearings are publicized and conducted to obtain taxpayers' comments. The express purpose of this budget document is to reflect the need for existing or increased tax rates. By no later than January 20, the Board-adopted budget is filed with the Wood County Budget Commission for rate determination. The Wood County Budget Commission waived the tax budget filing requirement for fiscal year 2018.

**NORTHWOOD LOCAL SCHOOL DISTRICT
WOOD COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

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

2. Estimated Resources

Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the County Budget Commission and receives the commission's certificate of estimated resources which states the projected revenue of each fund.

Prior to July 1, the District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the certificate of estimated resources. The revised budget then serves as the basis for the appropriation measure. On or about July 1, the certificate is amended to include any unencumbered cash balances from the preceding year. The certificate may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The amounts reported in the budgetary statement reflect the amounts in the original and final amended certificate issued during fiscal year 2018.

3. Appropriations

Upon receipt from the County Auditor of an amended certificate of estimated resources based on final assessed values and tax rates or a certificate saying no new certificate is necessary, the annual appropriation resolution must be legally enacted by the Board of Education at the fund-object level of expenditures for the general fund, and at the fund level for all other funds, which are the legal level of budgetary controls. Prior to the passage of the annual appropriations measure, the Board may pass a temporary appropriation measure to meet the ordinary expenses of the District.

The appropriation resolution, by fund, must be within the estimated resources as certified by the County Budget Commission and the total of expenditures and encumbrances may not exceed the appropriation total of any level of control. Any revisions that alter the total object appropriations within a fund (for general fund), or the total of any fund appropriation (for all other funds) must be approved by the Board of Education.

The Board may pass supplemental fund appropriations so long as the total appropriations by fund do not exceed the amounts set forth in the most recent certificate of estimated resources. During the year, several supplemental appropriations were legally enacted.

The budget figures which appear in the statement of budgetary comparisons represent the original and final appropriation amounts, including all supplemental appropriations.

4. Encumbrances

As part of formal budgetary control, purchase orders, contracts, and other commitments for the expenditure of monies are recorded as the equivalent of expenditures in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. Expenditures plus encumbrances may not legally exceed appropriations.

5. Lapsing of Appropriations

At the close of each fiscal year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriation.

**NORTHWOOD LOCAL SCHOOL DISTRICT
WOOD COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

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

Encumbered appropriations are carried forward to the succeeding fiscal year and are not reappropriated.

F. Cash and Investments

To improve cash management, cash received by the District is pooled in a central bank account. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through the District's records. Each fund's interest in the pool is presented as "equity in pooled cash, cash equivalents and investments" on the basic financial statements.

During fiscal year 2018, investments consisted of federal agency securities, U.S. government money market mutual funds, negotiable certificates of deposit, commercial paper and investments in the State Treasury Asset Reserve of Ohio (STAR Ohio). In accordance with the cash basis of accounting, all District investments, except Star Ohio, are reported at cost.

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 its 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 a NAV per share that approximates fair value.

For 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.

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund. By policy of the Board of Education, investment earnings are assigned to the general fund. Interest receipts credited to the general fund during fiscal year 2018 amounted to \$80,329 which includes \$27,298 assigned from other funds.

For presentation on the basic financial statements, investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the District are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

An analysis of the District's investment account at year end is provided in Note 4.

G. Capital Assets

Acquisition of property, plant, and equipment purchased are recorded as disbursements when paid. These items are not reflected as assets on the accompanying financial statements under the cash basis of accounting. Depreciation has not been reported for any capital assets.

**NORTHWOOD LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

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

H. Unpaid Vacation and Sick Leave

Employees are entitled to cash payments for unused vacation and sick leave in certain circumstances, such as upon leaving employment. Unpaid vacation and sick leave are not reflected as liabilities under the cash basis of accounting.

I. Long-Term Obligations

Bonds and other long-term obligations are not recognized as a liability in the financial statements under the cash basis of accounting. These statements report proceeds of debt when cash is received, and debt service disbursements for debt principal and interest payments.

J. Fund Cash Balance

Fund cash balance is divided into five classifications based primarily on the extent to which the District is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

Nonspendable - The nonspendable fund balance classification includes amounts that cannot be spent because they are not in spendable form or legally required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash.

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

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

Assigned - Amounts in the assigned fund balance classification are intended to be used by the District for specific purposes but do not meet the criteria to be classified as restricted nor committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the general fund, assigned amounts represent intended uses established by policies of the District Board of Education, which includes giving the Treasurer the authority to constrain monies for intended purposes. The Board 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.

**NORTHWOOD LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

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

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

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

K. Net Cash Position

Net cash position is reported as restricted when enabling legislation or creditors, grantors or laws or regulations of other governments have imposed limitations on its use. The District first applies restricted resources when a disbursement is incurred for purposes for which both restricted and unrestricted net cash position are available. The District did not have any assets restricted by enabling legislation at June 30, 2018.

L. Restricted Assets

Assets are reported as restricted assets when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments or imposed by enabling legislation. The District did not have any restricted assets at June 30, 2018.

M. Interfund Activity

Exchange transactions between funds are reported as receipts in the seller funds and as disbursements in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers in governmental funds. Interfund advances and transfers are eliminated in the statement of activities - cash basis.

N. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal year 2018.

O. Pensions/Other Postemployment Benefits (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 position have been determined on the same basis as they are reported by the pension/OPEB plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. The pension/OPEB plans report investments at fair value.

**NORTHWOOD LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principles/Restatement of Net Position

For fiscal year 2018, the District has implemented GASB Statement No. 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pension", 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 improves the accounting and financial reporting by state and local governments for postemployment benefits other than pension (OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. The implementation of GASB Statement No. 75 affected the District's postemployment benefit plan disclosures, as presented in Note 11 to the basic financial statements.

GASB Statement No. 81 improves the accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The implementation of GASB Statement No. 81 did not have an effect on the financial statements of the District.

GASB Statement No. 85 addresses practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and OPEB. The implementation of GASB Statement No. 85 did not have an effect on the financial statements of the District.

GASB Statement No. 86 improves consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources - resources other than the proceeds of refunding debt - are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. The implementation of GASB Statement No. 86 did not have an effect on the financial statements of the District.

B. Deficit Fund Balances

Fund balances at June 30, 2018 included the following individual fund deficits:

<u>Nonmajor funds</u>	<u>Deficit</u>
IDEA Part B	\$ 20,249
Title I	34,350
Improving Teacher Quality	26,961
Miscellaneous Federal Grants	844

The deficit fund balances resulted from a lag between disbursements made by the District and reimbursements from grantors and are allowable under Ohio Revised Code 3315.20.

**NORTHWOOD LOCAL SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE (Continued)

C. Compliance

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

NOTE 4 - DEPOSITS AND INVESTMENTS

State statutes classify monies held by the District into three categories.

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

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

Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use, but which will be needed before the end of the current period of designation of depositories.

Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts including passbook accounts.

Interim monies may be deposited or invested in the following securities:

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio, or legal governments;

**NORTHWOOD LOCAL SCHOOL DISTRICT
WOOD COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No load money market mutual funds consisting exclusively of obligations described in items (1) or (2) above and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
7. The State Treasurer's investment pool the State Treasury Asset Reserve of Ohio (STAR Ohio);
8. Commercial paper notes, limited to 40% (5% for a single issuer) in total of the interim monies available for investment at any one time and for a period not to exceed two hundred seventy days; and,
9. Bankers acceptances, limited to 40% of the interim monies available for investment at any one time and for a period not to exceed one-hundred-eighty days.

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

Investments in stripped principal or interest obligations reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the District, and must be purchased with the expectation that it will be held to maturity.

Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

A. Cash on Hand

At year end, the District had \$2,415 in undeposited cash on hand which is included on the financial statements of the District as part of "equity in pooled cash, cash equivalents and investments".

B. Deposits with Financial Institutions

At June 30, 2018, the carrying amount of all District deposits was \$940,797 and the bank balance of all District deposits was \$1,410,082. Of the bank balance, \$201,874 was exposed to custodial risk.

**NORTHWOOD LOCAL SCHOOL DISTRICT
WOOD COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

Custodial credit risk is the risk that, in the event of bank failure, the District will not be able to recover deposits or collateral securities that are in the possession of an outside party. The District has no deposit policy for custodial credit risk beyond the requirements of State statute. Ohio law requires that deposits either be insured or protected by (1) eligible securities pledged to the District and deposited with a qualified trustee by the financial institution as security for repayment whose market value at all times shall be at least 105 percent of the deposits being secured, or (2) 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. OPCS requires the total market value of the securities pledged to be 102 percent of the deposits being secured or a rate set by the Treasurer of State. For fiscal year 2018, the District's financial institutions were approved for a reduced collateral rate of 102 percent through the OPCS. Although all statutory requirements for the deposit of money had been followed, noncompliance with Federal requirements could potentially subject the District to a successful claim by the FDIC.

C. Investments

As of June 30, 2018, the District had the following investments and maturities:

Measurement/ Investment type	Balance at Carrying Value	Balance at Fair Value	Investment Maturities					
			6 months or less	7 to 12 months	13 to 18 months	19 to 24 months	Greater than 24 months	
Net Asset Value per share:								
STAR Ohio	\$ 2,461,516	\$ 2,461,516	\$ 2,461,516	\$ -	\$ -	\$ -	\$ -	\$ -
Fair Value								
Commercial Papers	1,568,370	1,571,457	1,571,457	-	-	-	-	-
Negotiable CDs	4,253,909	4,173,964	713,713	749,480	713,677	391,102	1,605,992	
U.S. Govt Money Market	500,783	500,783	500,783	-	-	-	-	-
Total	\$ 8,784,578	\$ 8,707,720	\$ 5,247,469	\$ 749,480	\$ 713,677	\$ 391,102	\$ 1,605,992	

The weighted average maturity of investments is 0.80 years.

Interest Rate Risk: Interest rate risk is the risk potential purchasers of debt securities will not agree to pay face value for those securities if interest rates subsequently increase. As a means of limiting its exposure to fair value losses arising from rising interest rates and according to state law, the District's investment policy limits investment portfolio maturities to five years or less.

Credit Risk: STAR Ohio carries a rating of AAAM by Standard & Poor's. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard service rating. The investments in commercial paper were rated A1 by Standard & Poor's. The negotiable CDs are fully covered by FDIC. The U.S. Government money markets are not rated.

**NORTHWOOD LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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

Concentration of Credit Risk: The District places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the District at June 30, 2018:

<u>Meadurment/Investment type</u>	<u>Carrying Value</u>	<u>% to Total</u>
Net Asset Value per share:		
STAR Ohio	2,461,516	28.02
Fair Value:		
Commercial Papers	1,568,370	17.85
Negotiable CDs	4,253,909	48.43
U.S. Govt Money Market	<u>500,783</u>	<u>5.70</u>
Total	<u>\$ 8,784,578</u>	<u>100.00</u>

D. Reconciliation of Cash to the Statement of Net Position

The following is a reconciliation of cash as reported in the note above to cash as reported on the statement of net position as of June 30, 2018:

<u>Cash per note</u>	
Carrying amount of deposits	\$ 940,797
Investments	8,784,578
Cash on hand	<u>2,415</u>
Total	<u>\$ 9,727,790</u>
 <u>Cash per statement of net position</u>	
Governmental activities	\$ 9,586,960
Private purpose trust funds	103,280
Agency fund	<u>37,550</u>
Total	<u>\$ 9,727,790</u>

NOTE 5 - PROPERTY TAXES

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

**NORTHWOOD LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 5 - PROPERTY TAXES - (Continued)

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

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

The District receives property taxes from Wood County. The County Auditor periodically advances to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2018, are available to finance fiscal year 2018 operations. The amount of second-half real property taxes available for advance at fiscal year-end can vary based on the date the tax bills are sent.

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

	2017 Second Half Collections		2018 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and other real estate	\$ 112,002,890	97.39	\$ 117,309,990	97.43
Public utility personal	<u>2,998,440</u>	<u>2.61</u>	<u>3,095,140</u>	<u>2.57</u>
Total	<u>\$ 115,001,330</u>	<u>100.00</u>	<u>\$ 120,405,130</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation	\$82.65		\$81.25	

NOTE 6 - PAYMENT IN LIEU OF TAXES

According to State law, Wood County has entered into agreements with a number of property owners under which the County has granted property tax exemptions to these property owners. The property owners have agreed to make payments to the County which reflect all or a portion of the property taxes which the property owners would have paid if the taxes had not been exempted. The agreements provide for a portion of these payments to be paid to the District. The property owners' contractually promise to make these payments in lieu of taxes until the agreement expires.

**NORTHWOOD LOCAL SCHOOL DISTRICT
WOOD COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 7 - INCOME TAXES

The District levies a voted income tax of 0.25% on the income of residents for general operations of the District and to offset a portion of the K-12 facilities construction project. The income tax became effective on January 1, 2015 and is in effect for a continual period of time. Employers of residents are required to withhold income tax on employee compensation and then remit that income tax to the State, and taxpayers are required to file an annual return. The State makes quarterly distributions to the District after withholding amounts for administrative fees and estimated refunds. Income tax revenue is credited to the general fund and amounted to \$343,483 for fiscal year 2018.

NOTE 8 - LONG-TERM OBLIGATIONS

During fiscal year 2018, the following changes occurred in the District's long-term obligations:

	Balance Outstanding <u>June 30, 2017</u>	<u>Additions</u>	<u>Reductions</u>	Balance Outstanding <u>June 30, 2018</u>	Amounts Due in <u>One Year</u>
Governmental activities:					
<u>General obligation bonds</u>					
Series 2014A					
Current interest and term bonds	\$ 10,500,000	\$ -	\$ (150,000)	\$ 10,350,000	\$ 155,000
Capital appreciation bonds	90,000	-	-	90,000	-
Accreted interest	79,079	25,239	-	104,318	-
Series 2014B					
Current interest and term bonds	3,375,000	-	(150,000)	3,225,000	150,000
Capital appreciation bonds	55,000	-	-	55,000	-
Accreted interest	39,580	12,017	-	51,597	-
Total general obligation bonds	<u>14,138,659</u>	<u>37,256</u>	<u>(300,000)</u>	<u>13,875,915</u>	<u>305,000</u>
Certificates of participation	<u>11,995,000</u>	<u>-</u>	<u>-</u>	<u>11,995,000</u>	<u>215,000</u>
Total governmental activities	<u>\$ 26,133,659</u>	<u>\$ 37,256</u>	<u>\$ (300,000)</u>	<u>\$ 25,870,915</u>	<u>\$ 520,000</u>

Construction bonds, series 2014A: On October 9, 2014, the District issued general obligation bonds in order to fund the local share and required locally funded initiatives under the Classroom Facilities Assistance Program of the Ohio Facilities Construction Commission (OFCC). These bonds are general obligations of the District, for which its full faith and credit is pledged for repayment. The bonds are paid from the bond retirement fund, a nonmajor governmental fund.

The issue is comprised of both current interest and term bonds, par value \$10,780,000, and capital appreciation bonds, par value \$90,000. The interest rates on the current interest bonds range from 1.00% to 5.00%. The capital appreciation bonds mature on July 15, of 2020, 2021, 2022, 2025 and 2026 (stated interest rate of 30.61%, 29.93%, 29.10%, 29.30%, 28.92%, respectively) at a redemption price equal to 100% of the principal plus accreted interest to the redemption date. The accreted value at maturity for the capital appreciation bonds is \$795,000. A total of \$104,318 in interest has been accreted on the capital appreciation bonds as of June 30, 2018.

Interest payments on the current interest and term bonds are due on January 15 and July 15 of each year. The final stated maturity is July 15, 2051.

**NORTHWOOD LOCAL SCHOOL DISTRICT
WOOD COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 8 - LONG-TERM OBLIGATIONS - (Continued)

Future debt service payments are as follows:

Fiscal Year	Current Interest Bonds, Series 2014A			Capital Appreciation Bonds, Series 2014A		
	Principal	Interest	Total	Principal	Interest	Total
2019	\$ 155,000	\$ 409,506	\$ 564,506	\$ -	\$ -	\$ -
2020	-	406,794	406,794	30,000	125,000	155,000
2021	-	406,794	406,794	25,000	140,000	165,000
2022	-	406,794	406,794	20,000	145,000	165,000
2023	165,000	406,794	571,794	-	-	-
2024 - 2028	655,000	1,977,420	2,632,420	15,000	295,000	310,000
2029 - 2033	1,200,000	1,837,319	3,037,319	-	-	-
2034 - 2038	1,555,000	1,581,624	3,136,624	-	-	-
2039 - 2043	2,070,000	1,170,550	3,240,550	-	-	-
2044 - 2048	2,640,000	709,400	3,349,400	-	-	-
2049 - 2051	1,910,000	155,000	2,065,000	-	-	-
Total	<u>\$ 10,350,000</u>	<u>\$ 9,467,995</u>	<u>\$ 19,817,995</u>	<u>\$ 90,000</u>	<u>\$ 705,000</u>	<u>\$ 795,000</u>

Construction bonds, series 2014B: On October 9, 2014, the District issued general obligation bonds in order to fund the local share and required locally funded initiatives under the Classroom Facilities Assistance Program of the Ohio Facilities Construction Commission (OFCC). These bonds are general obligations of the District, for which its full faith and credit is pledged for repayment. The bonds are paid from the bond retirement fund, a nonmajor governmental fund.

The issue is comprised of both current interest bonds, par value \$3,545,000, and capital appreciation bonds, par value \$55,000. The interest rates on the current interest bonds range from 1.00% to 3.75%. The capital appreciation bonds mature on July 15, of 2021 and 2022 (stated interest rate of 25.80% and 24.93%, respectively) at a redemption price equal to 100% of the principal plus accreted interest to the redemption date. The accreted value at maturity for the capital appreciation bonds is \$310,000. A total of \$51,597 in interest has been accreted on the capital appreciation bonds as of June 30, 2018.

Interest payments on the current interest and term bonds are due on January 15 and July 15 of each year. The final stated maturity is July 15, 2037.

**NORTHWOOD LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 8 - LONG-TERM OBLIGATIONS - (Continued)

Future debt service payments are as follows:

Fiscal Year	Current Interest Bonds, Series 2014B			Capital Appreciation Bonds, Series 2014B		
	Principal	Interest	Total	Principal	Interest	Total
2019	\$ 150,000	\$ 104,825	\$ 254,825	\$ -	\$ -	\$ -
2020	150,000	102,200	252,200	-	-	-
2021	-	99,200	99,200	30,000	125,000	155,000
2022	-	99,200	99,200	25,000	130,000	155,000
2023	155,000	99,200	254,200	-	-	-
2024 - 2028	850,000	423,250	1,273,250	-	-	-
2029 - 2033	990,000	279,662	1,269,662	-	-	-
2034 - 2037	930,000	88,688	1,018,688	-	-	-
Total	<u>\$ 3,225,000</u>	<u>\$ 1,296,225</u>	<u>\$ 4,521,225</u>	<u>\$ 55,000</u>	<u>\$ 255,000</u>	<u>\$ 310,000</u>

On August 21, 2008, the District issued \$12,195,000 in certificates of participation (“COPs”) to finance the acquisition, construction, installation and improvement of District facilities. The COPs bear interest rates ranging from 1.00% to 5.00%. Interest payments on the COPs are due on January 15 and July 15 of each year. The final maturity stated in the issue is December 1, 2042. Principal and interest payments will be made from the general fund.

Principal and interest requirements to retire the COPs at June 30, 2018, are as follows:

Fiscal Year Ending June 30,	Principal on COPs	Interest on COPs	Total
2019	\$ 215,000	\$ 462,531	\$ 677,531
2020	290,000	458,231	748,231
2021	295,000	452,431	747,431
2022	305,000	443,581	748,581
2023	315,000	431,381	746,381
2024 - 2028	1,740,000	1,967,468	3,707,468
2029 - 2033	2,000,000	1,658,052	3,658,052
2034 - 2038	2,450,000	1,208,650	3,658,650
2039 - 2043	3,005,000	646,200	3,651,200
2044-2045	1,380,000	83,400	1,463,400
Total	<u>\$ 11,995,000</u>	<u>\$ 7,811,925</u>	<u>\$ 19,806,925</u>

**NORTHWOOD LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 8 - LONG-TERM OBLIGATIONS - (Continued)

The Ohio Revised Code provides that voted net general obligation debt of the District shall never exceed 9% of the total assessed valuation of the District. The code further provides that unvoted indebtedness shall not exceed 1/10 of 1% of the property valuation of the District. The code additionally states that unvoted indebtedness related to energy conservation debt shall not exceed 9/10 of 1% of the property valuation of the District. The assessed valuation use in determining the District's legal debt margin has been modified by House Bill 530 which became effective March 30, 2006. In accordance with House Bill 530, the assessed valuation used in the District's legal debt margin calculation excluded tangible personal property used in business, telephone or telegraph property, interexchange telecommunications company property, and personal property owned or leased by a railroad company and used in railroad operations.

The Ohio Revised Code further provides that when a Board of Education declares a resolution that the student population is not adequately served by existing facilities, and that insufficient capacity exists within the 9% limit to finance additional facilities, the State Department of Education may declare that district a "special needs" district. This permits the incurrence of additional debt based upon projected 5-year growth of the school district's assessed valuation. The District was determined to be a "special needs" district by the State Superintendent.

NOTE 9 - RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. The District participates in the Ohio School Plan, an insurance purchasing pool, as described in Note 2.A.

During fiscal year 2018, the District purchased the following coverage:

Buildings and contents - replacement cost	\$ 41,652,008
Automobile liability	2,000,000
General school district liability:	
Per occurrence	2,000,000
Total per year	4,000,000

Settled claims have not exceeded this commercial coverage in any of the past three years, and there has been no significant reduction in coverage from the prior year.

The District participates in the Wood County Schools Benefit Plan Association (the "Association"), a public entity shared risk pool, for employee medical and dental benefits and the Ohio Association of School Business Officials Workers' Compensation Group Rating Plan. These memberships are described in Note 2.A.

NOTE 10 - 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.

**NORTHWOOD LOCAL SCHOOL DISTRICT
WOOD COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 10 - PENSION PLANS - (Continued)

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.

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

Age and service requirements for retirement are as follows:

	Eligible to Retire on or before August 1, 2017 *	Eligible to Retire after August 1, 2017
Full benefits	Any age with 30 years of service credit Age 65 with 5 years of service credit	Age 67 with 10 years of service credit; or Age 57 with 30 years of service credit
Actuarially reduced benefits	Age 60 with 5 years of service credit Age 55 with 25 years of service credit	Age 62 with 10 years of service credit; or Age 60 with 25 years of service credit

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

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

**NORTHWOOD LOCAL SCHOOL DISTRICT
WOOD COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 10 - PENSION PLANS - (Continued)

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

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System's funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2018, the allocation to pension, death benefits, and Medicare B was 13.5 percent. The remaining 0.5 percent of the employer contribution rate was allocated to the Health Care Fund.

The District's contractually required contribution to SERS was \$204,296 for fiscal year 2018.

Plan Description - State Teachers Retirement System (STRS)

Plan Description - County licensed teachers 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 website 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 will be 2.2 percent of final average salary for the five highest years of earnings multiplied by all years of service. Effective July 1, 2017, the cost-of-living adjustment was reduced to zero. Members are eligible to retire at age 60 with five years of qualifying service credit, or 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.

**NORTHWOOD LOCAL SCHOOL DISTRICT
WOOD COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 10 - PENSION PLANS - (Continued)

The Combined Plan offers features of both the DB Plan and the DC Plan. In the Combined Plan, 12% of the 14% member rate goes to the DC Plan and the remaining 2% 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 that apply for disability benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member of the DC Plan dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Funding Policy - Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. For fiscal year 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.

The District's contractually required contribution to STRS was \$671,574 for fiscal year 2018.

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 actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's share of contributions to the pension plan relative to the projected contributions of all participating entities. Following is information related to the proportionate share:

**NORTHWOOD LOCAL SCHOOL DISTRICT
WOOD COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 10 - PENSION PLANS - (Continued)

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportion of the net pension liability prior measurement date	0.04810850%	0.04108572%	
Proportion of the net pension liability current measurement date	<u>0.05086830%</u>	<u>0.04123347%</u>	
Change in proportionate share	<u>0.00275980%</u>	<u>0.00014775%</u>	
Proportionate share of the net pension liability	\$ 3,039,269	\$ 9,795,099	\$ 12,834,368

Actuarial Assumptions - SERS

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

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

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

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of June 30, 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 investments expense, including inflation
Actuarial cost method	Entry age normal (level percent of payroll)

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an experience study that was completed June 30, 2015.

**NORTHWOOD LOCAL SCHOOL DISTRICT
WOOD COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 10 - PENSION PLANS - (Continued)

The cost of living adjustment was changed from a fixed 3 percent annual increase prior to the measurement date to a cost of living adjustment based on the change in the Consumer Price Index (CPI-W) not greater than 2.5 percent with a floor of zero percent beginning January 1, 2018. In addition, the Board has enacted a three year COLA suspension for benefit recipients in calendar years 2018, 2019 and 2020.

Mortality among active members was updated to 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 disable 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 most recent experience study was completed for the five year period ended June 30, 2015.

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

The target allocation and best estimates of arithmetic real rates of return for each major assets class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long Term Expected Real Rate of Return</u>
Cash	1.00 %	0.50 %
US Equity	22.50	4.75
International Equity	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	<u>10.00</u>	3.00
Total	<u>100.00 %</u>	

Discount Rate - The total pension liability was calculated using the discount rate of 7.50 percent. The projection of cash flows used to determine the discount rate assumed the contributions from employers and from the members would be computed based on contribution requirements as stipulated by State statute. Projected inflows from investment earning were calculated using the long-term assumed investment rate of return (7.50 percent). Based on those assumptions, the plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability.

**NORTHWOOD LOCAL SCHOOL DISTRICT
WOOD COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 10 - PENSION PLANS - (Continued)

Sensitivity of the District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net pension liability calculated using the discount rate of 7.50 percent, as well as what each plan's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.50 percent), or one percentage point higher (8.50 percent) than the current rate.

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
District's proportionate share of the net pension liability	\$ 4,217,715	\$ 3,039,269	\$ 2,052,079

Actuarial Assumptions - STRS Ohio

Key methods and assumptions used in the latest actuarial valuation, reflecting experience study results used in the July 1, 2017, actuarial valuation, compared with July 1, 2016 are presented below:

	July 1, 2017	July 1, 2016
Inflation	2.50 percent	2.75 percent
Projected salary increases	12.50 percent at age 20 to 2.50 percent at age 65	12.25 percent at age 20 to 2.75 percent at age 70
Investment rate of return	7.45 percent, net of investment expenses, including inflation	7.75 percent, net of investment expenses, including inflation
Payroll increases	3 percent	3.5 percent
Cost-of-living adjustments (COLA)	0.0 percent, effective July 1, 2017	2 percent simple applied as follows: for members retiring before August 1, 2013, 2 percent per year; for members retiring August 1, 2013, or later, 2 percent COLA commences on fifth anniversary of retirement date.

For the July 1, 2017, actuarial valuation, 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.

For the July 1, 2016 actuarial valuation, mortality rates were based on the RP-2000 Combined Mortality Table (Projection 2022—Scale AA) for Males and Females. Males' ages are set-back two years through age 89 and no set-back for age 90 and above. Females younger than age 80 are set back four years, one year set back from age 80 through 89, and no set back from age 90 and above.

**NORTHWOOD LOCAL SCHOOL DISTRICT
WOOD COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 10 - PENSION PLANS - (Continued)

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. Actuarial assumptions used in the June 30, 2016, valuation are based on the results of an actuarial experience study, effective July 1, 2012.

STRS Ohio's 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:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long Term Expected Real Rate of Return *</u>
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	<u>1.00</u>	2.25
 Total	 <u><u>100.00 %</u></u>	

*10-Year geometric nominal returns, which include the real rate of return and inflation of 2.25% 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 discount rate used to measure the total pension liability was 7.75 percent as of June 30, 2016. The projection of cash flows used to determine the discount rate assumes member and employer contributions will be made at the statutory contribution rates in accordance with rate increases described above. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, STRS' fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 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 payment 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 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 rate:

**NORTHWOOD LOCAL SCHOOL DISTRICT
WOOD COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 10 - PENSION PLANS - (Continued)

	1% Decrease (6.45%)	Current Discount Rate (7.45%)	1% Increase (8.45%)
District's proportionate share of the net pension liability	\$ 14,040,941	\$ 9,795,099	\$ 6,218,614

NOTE 11 - 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.

The 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.

**NORTHWOOD LOCAL SCHOOL DISTRICT
WOOD COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 11 - DEFINED BENEFIT OPEB PLANS - (Continued)

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 Chapter 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 \$28,267.

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 \$35,563 for fiscal year 2018.

**NORTHWOOD LOCAL SCHOOL DISTRICT
WOOD COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 11 - DEFINED BENEFIT OPEB PLANS - (Continued)

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 post-employment 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 post-employment 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:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportion of the net OPEB liability prior measurement date	0.04870827%	0.04108572%	
Proportion of the net OPEB liability current measurement date	<u>0.05164540%</u>	<u>0.04123347%</u>	
Change in proportionate share	<u>0.00293713%</u>	<u>0.00014775%</u>	
Proportionate share of the net OPEB liability	\$ 1,386,027	\$ 1,608,778	\$ 2,994,805

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.

**NORTHWOOD LOCAL SCHOOL DISTRICT
WOOD COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 11 - DEFINED BENEFIT OPEB PLANS - (Continued)

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 investments expense, including inflation
Municipal bond index rate:	
Measurement date	3.56 percent
Prior measurement date	2.92 percent
Single equivalent interest rate, net of plan investment expense, including price inflation:	
Measurement date	3.63 percent
Prior measurement date	2.98 percent
Medical trend assumption:	
Medicare	5.50 to 5.00 percent
Pre-Medicare	7.50 to 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.

**NORTHWOOD LOCAL SCHOOL DISTRICT
WOOD COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 11 - DEFINED BENEFIT OPEB PLANS - (Continued)

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	 <u>100.00 %</u>	

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.

**NORTHWOOD LOCAL SCHOOL DISTRICT
WOOD COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 11 - DEFINED BENEFIT OPEB PLANS - (Continued)

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%) and higher (4.63%) than the current discount rate (3.63%). 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% decreasing to 4.0%) and higher (8.5% decreasing to 6.0%) 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	\$ 1,673,804	\$ 1,386,027	\$ 1,158,034
	1% Decrease (6.5 % decreasing to 4.0 %)	Current Trend Rate (7.5 % decreasing to 5.0 %)	1% Increase (8.5 % decreasing to 6.0 %)
District's proportionate share of the net OPEB liability	\$ 1,124,657	\$ 1,386,027	\$ 1,731,954

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 percent
Cost-of-living adjustments (COLA)	0.0 percent, effective July 1, 2017
Blended discount rate of return	4.13 percent
Health care cost trends	6 to 11 percent initial, 4.5 percent ultimate

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

**NORTHWOOD LOCAL SCHOOL DISTRICT
WOOD COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 11 - DEFINED BENEFIT OPEB PLANS - (Continued)

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:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Rate of Return *</u>
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	 <u><u>100.00 %</u></u>	

* 10 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.

**NORTHWOOD LOCAL SCHOOL DISTRICT
WOOD COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 11 - DEFINED BENEFIT OPEB PLANS - (Continued)

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 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	\$ 2,159,758	\$ 1,608,778	\$ 1,173,323
	1% Decrease	Current Trend Rate	1% Increase
District's proportionate share of the net OPEB liability	\$ 1,117,710	\$ 1,608,778	\$ 2,255,081

NOTE 12 - OTHER EMPLOYEE BENEFITS

A. Compensated Absences

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

**NORTHWOOD LOCAL SCHOOL DISTRICT
WOOD COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 12 - OTHER EMPLOYEE BENEFITS – (Continued)

B. Health Care Benefits

The District provides medical and dental insurance to all employees through the Wood County Schools Benefit Plan Association. Depending upon the plan chosen, the employees share the cost of monthly premium with the Board. The premium varies with employee depending on the terms of the union contract. The District also offers life insurance to all employees through the Fort Dearborn/Dearborn Life Insurance Company at no cost to the employee.

NOTE 13- INTERFUND TRANSACTIONS

- A. Interfund transfers for the year ended June 30, 2018, consisted of the following, as reported on the fund statements:

<u>Transfers in</u>	<u>Transfers out</u>	<u>Amount</u>
Nonmajor governmental fund	General fund	\$ 566,325
Nonmajor governmental fund	Permanent Improvement fund	58,418
Total		<u>\$ 624,743</u>

Transfers are used to move revenues from the fund that statute or budget required to collect them to the fund that statute or budget requires to expend them and to use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations. Interfund transfers between governmental funds are eliminated on the government-wide financial statements.

NOTE 14 - CONTINGENCIES

A. Grants

The District received financial assistance from federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the 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 legal proceedings that would have a material effect, if any, on the financial condition of the District.

**NORTHWOOD LOCAL SCHOOL DISTRICT
WOOD COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 14 – CONTINGENCIES – (Continued)

C. Foundation 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 of the date of this report, additional ODE adjustments for fiscal year 2018 are not finalized. As a result, the impact of future FTE adjustments on the fiscal year 2018 financial statements is not determinable, at this time. Management believes this may result in either an additional receivable to, or a liability of, the School District.

NOTE 15 - SET-ASIDES

The District is required by State law to annually set-aside certain general fund revenue amounts, as defined by statutory formula, for the acquisition and construction of capital improvements. Amounts not spent by the end of the fiscal year or offset by similarly restricted resources received during the year must be held in cash at fiscal year-end. This amount must be carried forward to be used for the same purpose in future years. Expenditures exceeding the set-aside requirement may not be carried forward to the next fiscal year.

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

	<u>Capital Improvements</u>
Set-aside balance June 30, 2017	\$ -
Current year set-aside requirement	175,984
Current year offsets	<u>(205,804)</u>
Total	<u>\$ (29,820)</u>
Balance carried forward to fiscal year 2019	<u>\$ -</u>
Set-aside balance June 30, 2018	<u>\$ -</u>

**NORTHWOOD LOCAL SCHOOL DISTRICT
WOOD COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 16 - BUDGETARY BASIS OF ACCOUNTING

While the District is reporting financial position, results of operations, and changes in fund balance on the cash basis, the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The Statement of Cash Receipts, Disbursements and Change in Fund Balance - Budget and Actual - Budgetary Basis presented for the general fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budgetary basis and the cash basis are that:

- (a) In order to determine compliance with Ohio law, and to reserve that portion of the applicable appropriation, total outstanding encumbrances (budget basis) are recorded as the equivalent of a disbursement, as opposed to assigned fund balance (cash basis); and,
- (b) Some funds are included in the general fund (cash basis), but have separate legally adopted budgets (budget basis).

The adjustments necessary to reconcile the budget basis statement to the cash basis statement are as follows:

Net Change in Fund Balance

	<u>General fund</u>
Budget basis	\$ (747,828)
Funds budgeted elsewhere	(15,996)
Adjustment for encumbrances	742,869
Cash basis	<u>\$ (20,955)</u>

Certain funds that are legally budgeted in separate special revenue funds are considered part of the general fund on a cash basis. This includes the band instrument fund, uniform school supplies fund, public school support fund, Northwood school bus activity fund and special enterprise fund.

NOTE 17 - OTHER COMMITMENTS

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

<u>Fund</u>	<u>Year-End Encumbrances</u>
General	\$ 756,269
Permanent improvement	42,874
Building	1,359,824
Classroom facilities	734,939
Nonmajor governmental	33,317
Total	<u>\$ 2,927,223</u>

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

Northwood Local School District
Wood County
500 Lemoyne Road
Northwood, Ohio 43619

To the Board of Education:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Northwood Local School District, Wood County, (the District) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated December 14, 2018, wherein we noted the District uses a special purpose framework other than accounting principles generally accepted in the United States of America. We also noted the District adopted new accounting guidance in Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*.

Internal Control Over Financial Reporting

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

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

Northwood Local School District

Wood County

Independent Auditor's Report on Internal Control Over
Financial Report and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in
Accordance with *Government Auditing Standards*

Page 2

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. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings that we consider a significant deficiency. We consider finding 2018-001 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express such an opinion. The results of our tests disclosed 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 and 2018-002.

We also noted certain matters not requiring inclusion in this report that we reported to the District's management in a separate letter dated December 14, 2018.

District's Responses to Findings

The District's responses to the findings identified in our audit are described in the accompanying Corrective Action Plan. The District's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

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



Charles E. Harris & Associates, Inc.

December 14, 2018

**NORTHWOOD LOCAL SCHOOL DISTRICT
WOOD COUNTY**

**SCHEDULE OF FINDINGS
JUNE 30, 2018**

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

FINDING NUMBER 2018-001: Ohio Revised Code Noncompliance and Significant Deficiency

Ohio Revised Code section 5705.14, .15 and .16 set forth requirements on what transfers may be made from one fund to another fund. During 2018, we noted that the Board of Education approved, and the District made, a transfer of funds from the Permanent Improvement Fund to the General Fund, and subsequently made an interest payment on the District's Certificate of Participation debt. The transfer was determined to be not in accordance with the Ohio Revised Code sections noted above and should not have been made. Instead, the related debt payment should have been made directly from the Permanent Improvement Fund.

This transfer was reversed in the financial statements and the District's accounting records. Further, the related interest payment was moved from the General Fund to the Permanent Improvement Fund. In the future, this type of transfer should not be made and the COP's principal and interest payments should be made directly from the Permanent Improvement Fund.

Official's Response: See Corrective Action Plan

FINDING NUMBER 2018-002: Noncompliance

Ohio Rev. Code Section 117.38 provides that each public office shall file a financial report for each fiscal year. The Auditor of State may prescribe forms by rule or may issue guidelines, or both, for such reports. If the Auditor of State has not prescribed a rule regarding the form for the report, the public office shall submit its report on the form utilized by the public office.

Ohio Admin. Code Section 117-2-03(B) requires the District to prepare its annual financial report in accordance with generally accepted accounting principles. Pursuant to Ohio Rev. Code Section 117.38, the District may be fined and subject to various other administrative remedies for its failure to file the required financial report.

The District did not report the financial activity in accordance with generally accepted accounting principles for fiscal year ending June 30, 2018. The accompanying financial statements and notes omit assets, deferred outflows, liabilities, deferred inflows, fund equities, and disclosures that, while material, cannot be determined at this time.

The Board of Education should review the standards and ensure preparation of its financial statements in accordance with AICPA's Audit and Accounting Guide Audits of State and Local Governments. The Board of Education should ensure the financial statements are prepared in accordance with the Ohio Administrative Code and the Ohio Revised Code. Implementation of these procedures would help ensure accurate financial statements are available to the District's community.

Official's Response: See Corrective Action Plan

**NORTHWOOD LOCAL SCHOOL DISTRICT
WOOD COUNTY**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2018
(Prepared by Management)**

Finding Number	Finding Summary	Status	Additional Information
2017-001	Ohio Revised Code § 117.38 and Administrative Code § 117-2-03 (B) – for not preparing its annual financial report in accordance with generally accepted accounting principles.	Not Corrected	Reissued as finding 2018-002. Cost vs Benefit Decision by Treasurer and Board of Education

**NORTHWOOD LOCAL SCHOOL DISTRICT
WOOD COUNTY**

**CORRECTIVE ACTION PLAN
JUNE 30, 2018
(Prepared by Management)**

Finding Number	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person
2018-001	The District has reversed the fund to fund transfer and corrected the expenses so that the proper funds are charged. Future payments will be made accordingly.	Immediately	Angel Adamski, Treasurer
2018-002	As one of the many cost cutting items identified, the Board agreed with the Treasurer's recommendation to suspend the preparation and compilation of the traditional GAAP reports due to its high cost versus the limited value and usage of these reports.	N/A	Angel Adamski, Treasurer

OHIO AUDITOR OF STATE KEITH FABER



NORTHWOOD LOCAL SCHOOL DISTRICT

WOOD 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
APRIL 11, 2019**