



Dave Yost • Auditor of State



**NORTHWESTERN LOCAL SCHOOL DISTRICT  
WAYNE COUNTY**

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# Dave Yost • Auditor of State

## INDEPENDENT AUDITOR'S REPORT

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

To the Board of Education:

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

We have audited the accompanying financial statements of the Northwestern Local School District, Wayne County, Ohio (the District), as of and for the year ended June 30, 2017, and the related notes to the financial statements.

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

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

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

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

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

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

***Basis for Adverse Opinion***

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

***Adverse Opinion***

In our opinion, because of the significance of the matter discussed in the *Basis for Adverse Opinion* paragraph, the financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Northwestern Local School District as of June 30, 2017, and the respective changes in financial position thereof for the year then ended.

***Other Matters***

*Supplementary Information*

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

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

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated January 31, 2018, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



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

January 31, 2018

**Northwestern Local School District**  
**Wayne County, Ohio**  
*Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances*  
*All Governmental Fund Types*  
*For the Fiscal Year Ended June 30, 2017*

	Governmental Fund Types				Total (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects	
<b>CASH RECEIPTS:</b>					
Taxes	\$ 5,268,724	\$ 47,929	\$ 406,868	\$ 202,562	\$ 5,926,083
Intergovernmental	7,800,046	1,152,550	64,013	26,273	9,042,882
Investment Income	16,142	856	9,342	1,199	27,539
Tuition and Fees	1,544,450	0	0	0	1,544,450
Extracurricular Activities	150,133	209,048	0	0	359,181
Charges for Services	29,868	0	0	0	29,868
Gifts and Contributions	64,271	226	0	0	64,497
Miscellaneous	41,701	409	0	0	42,110
<b>Total Cash Receipts</b>	<u>14,915,335</u>	<u>1,411,018</u>	<u>480,223</u>	<u>230,034</u>	<u>17,036,610</u>
<b>CASH DISBURSEMENTS:</b>					
Instruction:					
Regular	6,715,683	57,782	0	0	6,773,465
Special	1,345,641	1,256,536	0	0	2,602,177
Vocational	822,414	0	0	0	822,414
Student Intervention Services	66,990	0	0	0	66,990
Other	470,615	0	0	0	470,615
Support Services:					
Pupils	868,811	0	0	0	868,811
Instructional Staff	755,976	1,549	0	0	757,525
Board of Education	55,093	0	0	0	55,093
Administration	1,125,485	0	0	0	1,125,485
Fiscal	306,764	914	7,734	3,851	319,263
Operation and Maintenance of Plant	1,663,409	176,477	0	0	1,839,886
Pupil Transportation	781,061	0	0	0	781,061
Central	2,211	0	0	0	2,211
Extracurricular Activities	284,479	204,362	0	0	488,841
Capital Outlay	0	0	0	115,419	115,419
Debt Service:					
Principal Retirement	0	0	735,000	0	735,000
Interest and Fiscal Charges	0	0	78,479	0	78,479
<b>Total Cash Disbursements</b>	<u>15,264,632</u>	<u>1,697,620</u>	<u>821,213</u>	<u>119,270</u>	<u>17,902,735</u>
<b>Excess of Cash Receipts Over/(Under)</b>					
<b>Cash Disbursements</b>	(349,297)	(286,602)	(340,990)	110,764	(866,125)
<b>OTHER FINANCING RECEIPTS (DISBURSEMENTS):</b>					
Advances In	14,530	82,012	0	0	96,542
Advances Out	(82,012)	(14,530)	0	0	(96,542)
Transfers In	0	121,531	0	0	121,531
Transfers Out	(122,638)	0	0	0	(122,638)
<b>Total Other Financing Receipts (Disbursements)</b>	<u>(190,120)</u>	<u>189,013</u>	<u>0</u>	<u>0</u>	<u>(1,107)</u>
<b>Net Change in Fund Cash Balances</b>	(539,417)	(97,589)	(340,990)	110,764	(867,232)
<b>Fund Cash Balances, July 1, 2016</b>	<u>2,703,078</u>	<u>233,502</u>	<u>1,826,764</u>	<u>200,089</u>	<u>4,963,433</u>
<b>Fund Cash Balances, June 30, 2017:</b>					
Restricted	0	135,913	1,485,774	310,853	1,932,540
Assigned	443,165	0	0	0	443,165
Unassigned	1,720,496	0	0	0	1,720,496
<b>Total Fund Cash Balances, June 30, 2017</b>	<u>\$ 2,163,661</u>	<u>\$ 135,913</u>	<u>\$ 1,485,774</u>	<u>\$ 310,853</u>	<u>\$ 4,096,201</u>

See accompanying notes to the basic financial statements.

**Northwestern Local School District**  
**Wayne County, Ohio**  
*Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances*  
*All Proprietary and Fiduciary Fund Types*  
*For the Fiscal Year Ended June 30, 2017*

	Proprietary Fund Types		Fiduciary Fund Type		Total (Memorandum Only)
	Enterprise	Internal Service	Private Purpose Trust	Agency	
<b>OPERATING CASH RECEIPTS:</b>					
Food Services	\$ 268,215	\$ 0	\$ 0	\$ 0	\$ 268,215
Charges for Services	0	140,899	0	0	140,899
Gifts and Contributions	0	0	500	0	500
Investment Income	0	0	733	329	1,062
Other Operating Receipts	0	0	256	104,694	104,950
<b>Total Operating Cash Receipts</b>	<u>268,215</u>	<u>140,899</u>	<u>1,489</u>	<u>105,023</u>	<u>515,626</u>
<b>OPERATING CASH DISBURSEMENTS:</b>					
Salaries	201,432	0	0	0	201,432
Fringe Benefits	187,603	0	0	0	187,603
Purchased Services	13,069	139,977	0	0	153,046
Materials and Supplies	183,243	0	0	0	183,243
Other Operating Disbursements	0	0	1,650	98,850	100,500
<b>Total Operating Cash Disbursements</b>	<u>585,347</u>	<u>139,977</u>	<u>1,650</u>	<u>98,850</u>	<u>825,824</u>
<b>Operating Income (Loss)</b>	<u>(317,132)</u>	<u>922</u>	<u>(161)</u>	<u>6,173</u>	<u>(310,198)</u>
<b>NON-OPERATING CASH RECEIPTS (DISBURSEMENTS)</b>					
Federal and State Subsidies	305,878	0	0	0	305,878
Interest	93	138	0	0	231
<b>Total Non-Operating Cash Receipts (Disbursements)</b>	<u>305,971</u>	<u>138</u>	<u>0</u>	<u>0</u>	<u>306,109</u>
<b>Income (Loss) Before Transfers</b>	<u>(11,161)</u>	<u>1,060</u>	<u>(161)</u>	<u>6,173</u>	<u>(4,089)</u>
Transfers In	0	0	0	1,107	1,107
<b>Net Change in Fund Cash Balances</b>	<u>(11,161)</u>	<u>1,060</u>	<u>(161)</u>	<u>7,280</u>	<u>(2,982)</u>
<b>Fund Cash Balances, July 1, 2016</b>	<u>56,654</u>	<u>22,361</u>	<u>137,110</u>	<u>61,024</u>	<u>277,149</u>
<b>Fund Cash Balances, June 30, 2017</b>	<u>\$ 45,493</u>	<u>\$ 23,421</u>	<u>\$ 136,949</u>	<u>\$ 68,304</u>	<u>\$ 274,167</u>

See accompanying notes to the basic financial statements.



**Northwestern Local School District**  
**Wayne County, Ohio**  
*Notes to the Financial Statements*  
*For the Fiscal Year Ended June 30, 2017*

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Description of the Entity**

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

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

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

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

**B. Basis of Accounting**

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

**C. Cash**

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

**Northwestern Local School District**  
**Wayne County, Ohio**  
*Notes to the Financial Statements*  
*For the Fiscal Year Ended June 30, 2017*

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During fiscal year 2017, 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 School District measures their investment in STAR Ohio at the net asset value (NAV) per share provided by STAR Ohio. The NAV per share is calculated on an amortized cost basis that provides an NAV per share that approximates fair value.

For the fiscal year 2017, there were no limitations or restrictions on any participant withdrawals due to redemption notice periods, liquidity fees, or redemption gates. However, notice must be given 24 hours in advance of all deposits and withdrawals exceeding \$25 million. STAR Ohio reserves the right to limit the transaction to \$50 million, requiring the excess amount to be transacted the following business day(s), but only to the \$50 million limit. All accounts of the participant will be combined for these purposes.

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

#### **D. Fund Accounting**

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

##### **Governmental Funds**

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

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

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

**Northwestern Local School District**  
**Wayne County, Ohio**  
*Notes to the Financial Statements*  
*For the Fiscal Year Ended June 30, 2017*

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

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

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

Straight A Grant Fund – This fund accounts for State monies to provide for advancement in student achievement, achieve spending reductions in the five-year forecast or allow a greater share of resources to be utilized in the classroom.

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

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

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

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

**Proprietary Funds**

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

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

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

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

**Northwestern Local School District**  
**Wayne County, Ohio**  
*Notes to the Financial Statements*  
*For the Fiscal Year Ended June 30, 2017*

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**Fiduciary Funds**

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

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

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

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

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

**E. Budgetary Basis**

**Tax Budget**

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

**Appropriations**

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

**Northwestern Local School District**  
**Wayne County, Ohio**  
*Notes to the Financial Statements*  
*For the Fiscal Year Ended June 30, 2017*

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**Estimated Resources**

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

**Encumbrances**

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

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

A summary of 2017 budgetary activity appears in Note 3.

**F. Property, Plant and Equipment**

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

**G. Accumulated Leave**

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

**H. Pensions**

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

**Northwestern Local School District**  
**Wayne County, Ohio**  
*Notes to the Financial Statements*  
*For the Fiscal Year Ended June 30, 2017*

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**I. Total Columns on Financial Statements**

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

**J. Fund Balance**

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

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

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

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

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

**Northwestern Local School District**  
**Wayne County, Ohio**  
*Notes to the Financial Statements*  
*For the Fiscal Year Ended June 30, 2017*

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

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

**K. Implementation of New Accounting Principles**

For the fiscal year ended June 30, 2017, District has to the extent it applies to the cash basis of accounting implemented Governmental Accounting Standards Board (GASB) Statement No. 77, *Tax Abatement Disclosures*, GASB Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*, GASB Statement No. 80, *Blending Requirements for Certain Component Units - an amendment of GASB Statement No. 14* and GASB Statement No. 82, *Pension Issues - an amendment of GASB Statements No. 67, No. 68, and No. 73*.

GASB Statement No. 77 requires disclosure of tax abatement information about (1) a reporting government's own tax abatement agreements and (2) those that are entered into by other governments and that reduce the reporting government's tax revenues. The implementation of this statement did not result in any change in the District's financial statements as the District does not have any material GASB Statement No. 77 tax abatements.

GASB Statement No. 78 amends the scope of GASB Statement No. 68 to exclude certain multiple-employer defined benefit pension plans provided to employees of state and local governments on the basis that obtaining the measurements and other information required by GASB Statement No. 68 was not feasible. The implementation of GASB Statement No. 78 did not have an effect on the financial statements of the District.

GASB Statement No. 80 amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The implementation of GASB Statement No. 80 did not have an effect on the financial statements of the District.

GASB Statement No. 82 improves consistency in the application of pension accounting. These changes were incorporated in the District's fiscal year 2017 financial statements; however, there was no effect on beginning fund cash balances.

**Northwestern Local School District**  
**Wayne County, Ohio**  
*Notes to the Financial Statements*  
*For the Fiscal Year Ended June 30, 2017*

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**2. CASH AND INVESTMENTS**

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

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

Under existing Ohio statutes all investment earnings are assigned to the General Fund unless statutorily required to be credited to a specific fund. For the District, all investment earnings are receipts in the General Fund, School Support Fund, Maintenance Fund, Student Activities Fund, Extracurricular Activities Fund, Bond Retirement Fund, Permanent Improvement Fund, Food Service Fund, Dental Insurance Fund, and various trust funds, as authorized by board resolution. Interest income earned in fiscal year 2017 totaled \$28,601.

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

Demand Deposits	\$ 3,388,037
Petty Cash	1,995
STAR Ohio	969,336
Certificate of Deposit	<u>11,000</u>
Total Deposits and Investments	<u>\$ 4,370,368</u>

At fiscal year-end, the carrying amount of the District deposits was \$3,399,037, which excludes petty cash. Based on the criteria described in GASB Statement No. 40, *Deposits and Investment Risk Disclosures*, as of June 30, 2017, \$1,627,389 of the District's bank balance of \$3,912,377 was exposed to custodial risk as discussed below, while \$2,284,988 was covered by Federal Deposit Insurance Corporation (FDIC), which includes \$2,023,988 held in a STAR Plus account.

STAR Ohio is an investment pool operated by the Ohio State Treasurer. It is unclassified since it is not evidenced by securities that exist in physical or book entry form. Ohio law requires STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service. The weighted average of maturity of the portfolio held by STAR Ohio as of June 30, 2017, is 46 days and carries a rating of AAAM by Standard and Poor's.



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**3. BUDGETARY ACTIVITY**

Budgetary activity for the year ending June 30, 2017 is as follows:

2017 Budgeted vs Actual Receipts			
	Budget	Actual	
	Receipts	Receipts	Variance
General	\$ 12,932,214	\$ 14,941,716	\$ 2,009,502
Special Revenue	970,998	1,614,561	643,563
Debt Service	813,589	480,223	(333,366)
Capital Projects	270,403	230,034	(40,369)
Enterprise	541,752	574,186	32,434
Internal Service	129,742	141,037	11,295
Private Purpose Trust	0	1,489	1,489

2017 Appropriation vs Actual Budgetary Basis Expenditures			
	Appropriation	Budgetary	
	Authority	Expenditures	Variance
General	\$ 13,925,997	\$ 15,800,184	\$ (1,874,187)
Special Revenue	1,773,678	1,732,948	40,730
Debt Service	818,964	821,213	(2,249)
Capital Projects	242,249	223,403	18,846
Enterprise	446,655	591,998	(145,343)
Internal Service	127,121	139,977	(12,856)
Private Purpose Trust	4,414	1,650	2,764

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

**4. PROPERTY TAXES AND INCOME TAXES**

**A. Property Taxes**

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

Property taxes include amounts levied against all real and public utility property located in the District. Real property tax revenue received in calendar year 2017 represents collections of calendar year 2016 taxes. Real property taxes received in calendar year 2017 were levied after April 1, 2016, on the assessed value listed as of January 1, 2016, the lien date. Assessed values for real property taxes are established by State law at 35 percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

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Public utility property tax revenue received in calendar 2017 represents collections of calendar year 2016 taxes. Public utility real and tangible personal property taxes received in calendar year 2017 became a lien December 31, 2015, were levied after April 1, 2016 and are collected in 2017 with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

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

The assessed values upon which the fiscal year 2017 taxes were collected are:

	2016 Second Half Collections		2017 First Half Collections	
	Amount	Percent	Amount	Percent
Real Estate	\$ 159,066,700	96.98%	\$ 159,797,820	96.85%
Public Utility Personal Property	4,953,860	3.02%	5,205,280	3.15%
	\$ 164,020,560	100.00%	\$ 165,003,100	100.00%
Full Tax Rate per \$1,000 of assessed value	\$ 31.80		\$ 31.00	

**B. Income Taxes**

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

**5. DEFINED BENEFIT PENSION PLANS**

**Net Pension Liability**

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

The 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.

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

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

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

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

Age and service requirements for retirement are as follows:

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

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

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

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.

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Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System's funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2017, the allocation to pension, death benefits, and Medicare B was 14 percent. SERS did not allocate any employer contributions to the Health Care Fund for fiscal year 2017.

The District's contractually required contribution to SERS was \$297,192 for fiscal year 2017.

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

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

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

The DC Plan allows members to place all their member contributions and 9.5 percent of the 14 percent employer contributions into an investment account. Investment allocation decisions are determined by the member. The remaining 4.5 percent of the 14 percent employer rate is allocated to the defined benefit unfunded liability. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal.

The Combined Plan offers features of both the DB Plan and the DC Plan. In the Combined Plan, 11.5 percent of the 13 percent member rate goes to the DC Plan and the remaining 1.5 percent is applied to the DB Plan. Member contributions to the DC Plan are allocated among investment choices by the member, and contributions to the DB Plan from the employer and the member are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60 with five years of service. The defined contribution portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity after termination of employment at age 50 or later.

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New members who choose the DC plan or Combined Plan will have another opportunity to reselect a permanent plan during their fifth year of membership. Members may remain in the same plan or transfer to another STRS plan. The optional annuitization of a member's defined contribution account or the defined contribution portion of a member's Combined Plan account to a lifetime benefit results in STRS bearing the risk of investment gain or loss on the account. STRS has therefore included all three plan options as one defined benefit plan for GASB 68 reporting purposes.

A DB or Combined Plan member with five or more years of credited service who is determined to be disabled may qualify for a disability benefit. Eligible survivors of members who die before service retirement may qualify for monthly benefits. New members on or after July 1, 2013, must have at least ten years of qualifying service credit to apply for disability benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member of the DC Plan dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Funding Policy – Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. For the fiscal year ended June 30, 2017, 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 2017 contribution rates were equal to the statutory maximum rates.

The District's contractually required contribution to STRS was \$957,768 for fiscal year 2017.

**Net Pension Liability**

The net pension liability was measured as of July 1 2016, and the total pension liability used to calculate the net pension liability was determined by an independent actuarial valuation as of that date. The District's employer allocation percentage of the net pension liability is based on the employer's share of employer contributions in the pension plan relative to the total employer contributions of all participating employers. Employer contributions were determined based on the 14 percent employer rate and total member contributions from employer payroll reports for the year ended June 30, 2016:

	<u>STRS</u>	<u>SERS</u>	<u>Total</u>
Proportionate Share of the Net Pension Liability	\$ 20,305,300	\$ 4,395,962	\$ 24,701,262
Proportion of the Net Pension Liability	0.06066170%	0.06006170%	

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**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, 2016, 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	3.00 percent
Investment Rate of Return	7.50 percent net of investment expense, including inflation
Actuarial Cost Method	Entry Age Normal (Level Percent of Payroll)

Mortality rates were based on the RP-2014 Blue Collar Mortality Table with fully generational projection and a five year age set-back for both males and females. 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 actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period ending July 1, 2010 to June 30, 2015. The discount rate, assumed rate of inflation, payroll growth assumption and assumed real wage growth were reduced in the June 30, 2016 actuarial valuation. The rates of withdrawal, retirement and disability and mortality rates were also updated to more closely reflect actual experience.

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

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

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

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

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
District's proportionate share of the net pension liability	\$ 5,819,980	\$ 4,395,962	\$ 3,204,000

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**Actuarial Assumptions - STRS**

The total pension liability in the July 1, 2016, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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

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

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

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 Real Rate of Return*</u>
Domestic Equity	31.00 %	8.00 %
International Equity	26.00	7.85
Alternatives	14.00	8.00
Fixed Income	18.00	3.75
Real Estate	10.00	6.75
Liquidity Reserves	<u>1.00</u>	<u>3.00</u>
	<u>100.00 %</u>	<u>7.61 %</u>

\*10-year annualized geometric nominal returns, which include the real rate of return and inflation of 2.50 percent and does not include investment expenses. The total fund long-term expected return reflects diversification among the asset classes and therefore is not a weighted average return of the individual asset classes.



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

**Sensitivity of the District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate** The following table presents the District's proportionate share of the net pension liability as of June 30, 2016, calculated using the current period discount rate assumption of 7.75 percent, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.75 percent) or one-percentage-point higher (8.75 percent) than the current rate:

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
District's proportionate share of the net pension liability	\$ 26,984,093	\$ 20,305,300	\$ 14,671,343

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

## 6. POSTEMPLOYMENT BENEFITS

### A. School Employees Retirement System

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

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

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required basic benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. For fiscal year 2017, SERS did not allocate any employer contributions to the Health Care fund. In addition, employers pay a surcharge for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. For fiscal year 2017, this amount was \$23,500. 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 2017, the District's surcharge obligation was \$28,500.

For fiscal years 2016 and 2017, SERS did not allocate employer contributions to the Health Care fund. The District's contributions for health care for the fiscal year ended June 30, 2015, was \$52,567. The full amount has been contributed for fiscal year 2015.

**B. State Teachers Retirement System**

Plan Description – The District participates in the cost-sharing multiple-employer defined benefit Health Plan administered by the State Teachers Retirement System of Ohio (STRS) for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS. Ohio law authorizes STRS to offer this plan. Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. The Plan is included in the report of STRS which can be obtained by visiting [www.strsoh.org](http://www.strsoh.org) or by calling (888) 227-7877.

Funding Policy – Ohio Revised Code Chapter 3307 authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS. Active employee members do not contribute to the Health Care Plan. All benefit recipients, for the most recent year, pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For fiscal years 2017, 2016 and 2015, STRS did not allocate any employer contributions to post-employment health care; therefore, the District did not contribute to health care in the last three fiscal years.

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**7. LONG-TERM DEBT OBLIGATIONS**

	Outstanding 7/1/2016	Additions	Reductions	Outstanding 6/30/2017	Amounts Due in One Year
General Obligation Bonds:					
2003 Refunding (1.5% to 5.75%)	\$ 525,000	\$ 0	\$ 525,000	\$ 0	\$ 0
2011 Refunding (1.0% to 3.2%)	1,345,000	0	35,000	1,310,000	35,000
Various Improvement Bonds:					
3% - due July 1, 2018	560,000	0	175,000	385,000	185,000
	<u>\$ 2,430,000</u>	<u>\$ 0</u>	<u>\$ 735,000</u>	<u>\$ 1,695,000</u>	<u>\$ 220,000</u>

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

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

On October 15, 2003, the District issued \$2,995,000 refunded general obligation bonds. The proceeds of the bonds were used to refund in advance of their maturity the December 1, 2006 and December 1, 2016 maturities totaling \$2,995,000 of the District's general obligation bonds, Series 1994. This refunding was done to achieve interest cost savings. Proceeds of the bonds were used to establish an irrevocable escrow account. Funds in the escrow account were invested in special direct obligations of the United States Treasury or other obligations of the United States government or its agencies. The escrow securities and their earnings are structured to pay the principal and interest on the refunded 1994 bonds as such payments become due, until the call dates of the respective refunded bonds, at which time the escrow pays the principal of the refunded bonds at a price of par plus interest. Since these bonds have been placed in irrevocable trust, they are considered defeased for these financial statements. The advance refunding resulted in a difference between reacquisition price and the net carrying amount of the old debt of \$357,935. The economic gain was \$254,510. This refunding bond matured in fiscal year 2017.

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

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The annual requirement to amortize all debt outstanding as of June 30, 2017 is as follows:

Fiscal Year	2011 Refunding Bond	Various Improvement Bonds	Total
2018	\$ 69,248	\$ 275,206	\$ 344,454
2019	68,460	278,656	347,116
2020	275,249	0	275,249
2012	274,307	0	274,307
2022	272,835	0	272,835
2023-2025	505,084	0	505,084
Total Principal and Interest	1,465,183	553,862	2,019,045
Less Interest	(155,183)	(168,862)	(324,045)
Total Principal	<u>\$ 1,310,000</u>	<u>\$ 385,000</u>	<u>\$ 1,695,000</u>

**8. SET ASIDES**

The District is required by State statute to annually set aside in the general fund an amount based on a statutory formula for the acquisition and construction of capital improvements. Amounts not spent by year-end or offset by similarly restricted resources received during the year must be held in cash at year-end and carried forward to be used for the same purposes in future years. In prior years, the District was also required to set aside money for budget stabilization. At June 30, 2017, only the unspent portion of certain workers' compensation refunds continues to be set aside.

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

	Budget Stabilization Reserve	Capital Improvement Reserve
Balance, June 30, 2016	\$ 173,531	\$ 0
Current Year Set-Aside Requirement	0	245,584
Current Year Qualifying Disbursements	0	(735,000)
Total	<u>\$ 173,531</u>	<u>\$ (489,416)</u>
Balance Carried Forward to Fiscal Year 2018	<u>\$ 173,531</u>	<u>\$ 0</u>
Set-Aside Balance June 30, 2017	<u>\$ 173,531</u>	<u>\$ 0</u>

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

**Northwestern Local School District**  
**Wayne County, Ohio**  
*Notes to the Financial Statements*  
*For the Fiscal Year Ended June 30, 2017*

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**9. INTERNAL ACTIVITY**

**A. Interfund Advances**

Interfund advances consisted of the following at June 30, 2017:

	Advances In	Advances Out
General Fund	\$ 14,530	\$ 82,012
Special Revenue Funds:		
District Managed Student Activities	17,190	14,530
IDEA, Part B	46,375	0
Title I - Disadvantaged Children	10,665	0
Improving Teacher Quality	7,782	0
	\$ 96,542	\$ 96,542

The primary purpose of the interfund balances is to cover costs in specific funds where revenues were not received by June 30. The interfund advances in to the general fund during fiscal year 2017 were to repay a portion of the prior fiscal year outstanding balance.

**B. Interfund Transfers**

Transfers made during fiscal year 2017 were as follows:

	Transfers In	Transfers Out
General Fund	\$ 0	\$ 122,638
Special Revenue Fund:		
VOAG Supplemental Equipment Grant	21,076	0
Straight A Rural Collaborative Grant	56,877	0
Miscellaneous State Grants	8,928	0
Transition Grant	398	0
Title I	32,894	0
Title II-Improving Teacher Quality	1,358	0
Agency Fund:		
Student Managed Activities	1,107	0
	\$ 122,638	\$ 122,638

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

**Northwestern Local School District**  
**Wayne County, Ohio**  
*Notes to the Financial Statements*  
*For the Fiscal Year Ended June 30, 2017*

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**10. JOINTLY GOVERNED ORGANIZATION**

**Tri-County Computer Services Association (TCCSA)**

The Tri-County Computer Services Association (TCCSA) is a jointly governed organization comprised of 25 school districts. The jointly governed organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions for member districts. Each of the governments of these districts supports TCCSA based on per pupil charge dependent upon the software package utilized. The TCCSA assembly consists of a superintendent or designated representative from each participating district and a representative from the fiscal agent. TCCSA is governed by a board of directors chosen from the general membership of the TCCSA assembly. The board of directors consists of a representative from the fiscal agent, the chairman of each operating committee, and at least an assembly member from each county from which participating districts are located. Financial information can be obtained by contacting the Treasurer at the Tri-County Educational Service Center, which is the fiscal agent, located at 741 Winkler Drive, Wooster, OH 44691. During the year ended June 30, 2017, the District paid \$70,547 to TCCSA for basic service charges.

**11. RISK MANAGEMENT**

**A. Property and Liability**

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

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

**B. Workers Compensation**

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

**Northwestern Local School District**  
**Wayne County, Ohio**  
*Notes to the Financial Statements*  
*For the Fiscal Year Ended June 30, 2017*

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**C. Dental Insurance**

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

**12. PUBLIC ENTITY RISK POOL**

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

**13. CONTINGENCIES**

**A. Grants**

The District received financial assistance from federal and State agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, the effect of any such disallowed claims on the overall financial position of the District at June 30, 2017, if applicable, cannot be determined at this time.

**B. Litigation**

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

**C. School District Funding**

School district Foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. Traditional school districts must comply with minimum hours of instruction, instead of a minimum number of school days each year. The funding formula the Ohio Department of Education (ODE) is legislatively required to follow will continue to adjust as enrollment information is updated by the school districts, which can extend past the fiscal year end. As a result of the fiscal year 2017 reviews, the District is due \$28,484 from ODE. This amount has not been included in the financial statements.

**Northwestern Local School District**  
**Wayne County, Ohio**  
*Notes to the Financial Statements*  
*For the Fiscal Year Ended June 30, 2017*

**14. FUND BALANCE**

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

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

	General Fund	Special Revenue Funds	Debt Service Funds	Capital Project Funds	Total
Restricted for:					
Capital Projects	\$ 0	\$ 0	\$ 0	\$ 310,853	\$ 310,853
Debt Service	0	0	1,485,774	0	1,485,774
Maintenance Fund	0	23,019	0	0	23,019
Student Activities	0	80,856	0	0	80,856
Other Purposes	0	32,038	0	0	32,038
<b>Total Restricted</b>	<b>0</b>	<b>135,913</b>	<b>1,485,774</b>	<b>310,853</b>	<b>1,932,540</b>
Assigned for:					
Encumbrances:					
Instructional	139,162	0	0	0	139,162
Support Services	186,820	0	0	0	186,820
Other Purposes	117,183	0	0	0	117,183
<b>Total Assigned</b>	<b>443,165</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>443,165</b>
Unassigned	1,720,496	0	0	0	1,720,496
<b>Total Fund Cash Balance</b>	<b>\$ 2,163,661</b>	<b>\$ 135,913</b>	<b>\$ 1,485,774</b>	<b>\$ 310,853</b>	<b>\$ 4,096,201</b>

**15. COMMITMENTS**

**Encumbrances**

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

Fund	Amount
General	\$ 326,333
Special Revenue	32,027
Capital Projects	104,132
	<u>\$ 462,492</u>



**NORTHWESTERN LOCAL SCHOOL DISTRICT  
WAYNE COUNTY**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2017**

<b>FEDERAL GRANTOR</b> <i>Pass Through Grantor</i> Program/Cluster Title	Federal CFDA Number	Total Federal Expenditures
<b>U.S. DEPARTMENT OF AGRICULTURE</b> <i>Passed Through Ohio Department of Education</i>		
Child Nutrition Cluster:		
Non - Cash Assistance (Food Distribution):		
National School Lunch Program	10.555	\$ 49,256
Cash Assistance:		
School Breakfast Program	10.553	57,543
National School Lunch Program	10.555	<u>243,240</u>
Cash Assistance Subtotal:		<u>300,783</u>
Total Child Nutrition Cluster		<u>350,039</u>
<b>Total U.S. Department of Agriculture</b>		<b><u>350,039</u></b>
<b>U.S. DEPARTMENT OF EDUCATION</b> <i>Passed Through Ohio Department of Education</i>		
Title I Grants to Local Educational Agencies	84.010	301,208
Special Education Cluster:		
Special Education_Grants to States	84.027	278,044
Career and Technical Education - Basic Grants to States	84.048	532
Improving Teacher Quality State Grants	84.367	<u>49,688</u>
<b>Total U.S. Department of Education</b>		<b><u>629,472</u></b>
<b>Total Expenditures of Federal Awards</b>		<b><u>\$ 979,511</u></b>

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

**NORTHWESTERN LOCAL SCHOOL DISTRICT  
WAYNE COUNTY**

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

**NOTE A – BASIS OF PRESENTATION**

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

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

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

**NOTE C - CHILD NUTRITION CLUSTER**

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

**NOTE D - FOOD DONATION PROGRAM**

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



# Dave Yost • Auditor of State

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

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

To the Board of Education:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' Government Auditing Standards, the financial statements of the Northwestern Local School District, Wayne County, (the District) as of and for the year ended June 30, 2017, and the related notes to the financial statements and have issued our report thereon dated January 31, 2018, wherein we issued an adverse opinion as the District followed financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit.

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

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Therefore, unidentified material weaknesses or significant deficiencies may exist. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings that we consider material weaknesses. We consider findings 2017-003 and 2017-004 to be material weaknesses.

***Compliance and Other Matters***

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

***District's Response to Findings***

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

***Purpose of this Report***

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



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

January 31, 2018



# Dave Yost • Auditor of State

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

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

To the Board of Education:

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

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

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

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

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

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

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

***Opinion on each Major Federal Program***

In our opinion, the Northwestern Local School District complied, in all material respects with the compliance requirements referred to above that could directly and materially affect each of its major federal programs for the year ended June 30, 2017.

***Report on Internal Control Over Compliance***

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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



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

January 31, 2018

**NORTHWESTERN LOCAL SCHOOL DISTRICT  
WAYNE COUNTY**

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

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

**NORTHWESTERN LOCAL SCHOOL DISTRICT  
WAYNE COUNTY**

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

<b>2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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**FINDING NUMBER 2017-001**

**Noncompliance - Annual Financial Report**

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

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

The District did not prepare its annual financial report in accordance GAAP. The District prepared its annual financial report in accordance with standards established by the Auditor of State for governmental entities not required to prepare annual reports in accordance with generally accepted accounting principles. The accompanying financial statements and footnotes omit assets, liabilities, deferred inflows/outflows, fund equities, and disclosures that, while material, cannot be determined at this time. 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. Additionally, the District did not publish notice its annual financial report was complete and available for public inspection.

We recommend the School District prepare its financial statements in accordance with generally accepted accounting principles and publish notice in the local newspaper stating the District's financial report is available for public inspection.

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

**FINDING NUMBER 2017-002**

**Public Money Illegally Expended – Finding for Recovery – Resolved Under Audit**

On August 13, 2015, Jessica Kimmich signed an employment contract effective August 17, 2015 for the 2015-2016 and 2016-2017 school years. Each workday, Ms. Kimmich worked 6 periods out of 8 total periods, a full time equivalency (FTE) of 0.684, during the 2016-2017 and 2015-2016 school years, but was paid for working 7 periods, an FTE of 0.799. This resulted in the following overpayments.

- From July 1, 2016 to August 31, 2016, Ms. Kimmich was due \$5,136 based off of the negotiated salary schedule for the 2015-2016 school year and her FTE, but she was paid \$5,995, resulting in an overpayment of \$859.
- During the 2016-2017 school year, Ms. Kimmich was due \$30,292 based off of the negotiated salary schedule for the 2016-2017 school year and her FTE, but she was paid \$35,112, resulting in an overpayment of \$4,820.

In accordance with the foregoing facts and pursuant to **Ohio Rev. Code § 117.28**, a finding for recovery for public money illegally expended is hereby issued against Jessica Kimmich in the amount of \$5,679 and in favor of the District's General Fund.



**NORTHWESTERN LOCAL SCHOOL DISTRICT  
WAYNE COUNTY**

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

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

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

**Public Money Illegally Expended – Finding for Recovery – Resolved Under Audit (Continued)**

Under Ohio law, any public official who either authorizes an illegal expenditure of public funds or supervises the accounts of a public office from which such illegal expenditure is made is strictly liable for the amount of such expenditure. *Seward v. National Surety Co.*, 120 Ohio St. 47 (1929); 1980 Op. Att’y Gen. No. 80-074; **Ohio Rev. Code Section 9.39**; *State exrel. Village of Linndale v. Masten*, 18 Ohio St.3d 228 (1985). Public officials controlling public funds or property are secondarily liable for the loss incurred should such funds or property be fraudulently obtained by another, converted, misappropriated, lost or stolen. Public officials will be liable if and to the extent that recovery or restitution is not obtained from the persons who unlawfully obtained such funds or property. 1980 Op. Att’y Gen. No. 80-074.

In accordance with the foregoing facts, and pursuant to **Ohio Rev. Code § 117.28**, a Finding for Recovery for public money illegally expended is hereby issued against Treasurer Lesa Forbes and her bonding company, Travelers Casualty and Surety Company of America, jointly and severally, in the amount of \$5,679 and in favor of the District’s General Fund.

To resolve this finding, Jessica Kimmich entered into a repayment agreement with the Northwestern Local School District Board of Education in which she agreed to make thirty-six scheduled payments via payroll deduction over an eighteen month period. The payroll deductions began on January 5, 2018 with a final deduction to be made on June 20, 2019. The payment deductions of \$157.75 each will result in a total payment by Ms. Kimmich of \$5,679 on June 20, 2019.

**Officials’ Response:** See Corrective Action Plan

**FINDING NUMBER 2017-003**

**Noncompliance and Material Weakness – Expenditures Exceed Appropriations and Integrating Budgetary Data**

**Ohio Rev. Code § 5705.41(B)** prohibits a district from expending money unless it has been appropriated. The legal level of budgetary control for the district is the fund level, at which the board adopts the original appropriations measure. **Ohio Admin. Code § 117-2-02(C)(1)** also states that, "All local public offices should integrate the budgetary accounts, at the legal level of control or lower, into the financial system.

The appropriation ledger varied from the approved appropriation measure and budgetary expenditures exceeded appropriations for the year ended June 30, 2017 at the fund level as follows:

<b>Fund Number</b>	<b>Fund Name</b>	<b>Appropriation Ledger</b>	<b>Appropriation Authority</b>	<b>Total Expenditures</b>	<b>Variance</b>
001	General	\$18,634,801	\$13,364,939	\$15,600,123	(\$2,235,184)
002	Debt Service	823,479	818,964	821,213	(2,249)
006	Food Service	0	446,655	591,998	(145,343)
024	Self Insurance	123,000	127,121	139,977	(12,856)

**NORTHWESTERN LOCAL SCHOOL DISTRICT  
WAYNE COUNTY**

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

<b>2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)</b>
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**FINDING NUMBER 2017-003 (Continued)**

**Noncompliance and Material Weakness – Expenditures Exceed Appropriations and Integrating Budgetary Data (Continued)**

Failure to have adequate appropriation authority in place at the time of expenditure may result in expenditures exceeding available funds. Also, failure to post the appropriations accurately could result in overspending and negative fund balances and inhibit the District's ability to properly monitor the budget.

The Treasurer should not certify the availability of funds and should deny payment requests exceeding appropriations. The Treasurer may request the board to approve increased expenditures by increasing appropriations and amending estimated resources if necessary. To effectively control the budgetary cycle and to maintain accountability over District expenditures and revenues, the District should post to the ledgers, on a timely basis, appropriation amounts as passed by the Board of Education.

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

**FINDING NUMBER 2017-004**

**Material Weakness – Service Organization Controls**

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

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

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

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

<b>3. FINDINGS FOR FEDERAL AWARDS</b>
---------------------------------------

None

# Northwestern Local School District

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

Jeffrey N. Layton  
*Superintendent*  
 Scott Smith  
*Associate Superintendent*  
 Cathie L. Franks  
*Executive Secretary*  
*EMIS Coordinator*



Pride & Tradition

Lesa L Forbes  
*Treasurer*  
 Sherri L. Hamilton  
*Assistant to the Treasurer*  
 Jamie L. Imhoff  
*Transportation Administrative*  
*Secretary*

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

<b>Finding Number</b>	<b>Finding Summary</b>	<b>Status</b>	<b>Additional Information</b>
2016-001 2015-001	Ohio Admin. Code Section 117-2-03(B), Prepare Annual Financial Report in Accordance with Generally Accepted Accounting Principles (First issued in 2002)	Not Corrected	Repeated as Finding 2017-001, see Corrective Action Plan.
2016-002 2015-002	Material Noncompliance – Budgeting Procedures (First issued in 2014)	Not Corrected	Repeated as Finding 2017-003, see Corrective Action Plan.

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## NORTHWESTERN LOCAL SCHOOL DISTRICT WAYNE COUNTY

### CORRECTIVE ACTION PLAN 2 CFR § 200.511(c) JUNE 30, 2017

Finding Number	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person
2017-001	The District does not intend to report in accordance with generally accepted accounting principles (GAAP). Management believes the cost savings far outweighs reporting on GAAP.	n/a	Lesa Forbes, Treasurer
2017-002	A repayment plan has been agreed upon to return the overpayments back to the District. The Treasurer's Office will monitor these contracts more thoroughly to ensure overpayments will not occur in the future.	Immediately	Lesa Forbes, Treasurer
2017-003	The Treasurer's Office will monitor budgets monthly and make necessary amendments.	Immediately	Lesa Forbes, Treasurer
2017-004	Monthly reporting from Medical Mutual PPO is being retained electronically upon receipt from provider for future reviewing opportunity.	Immediately	Lesa Forbes, Treasurer



# Dave Yost • Auditor of State

**NORTHWESTERN LOCAL SCHOOL DISTRICT**

**WAYNE COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
MARCH 13, 2018**