

# **Northwestern Local School District Clark County, Ohio**

Basic Financial Statements

June 30, 2014

with Independent Auditors' Report





# Dave Yost • Auditor of State

Board of Education  
Northwestern Local School District  
5610 Troy Road  
Springfield, Ohio 45502

We have reviewed the *Independent Auditor's Report* of the Northwestern Local School District, Clark County, prepared by Clark, Schaefer, Hackett & Co., for the audit period July 1, 2013 through June 30, 2014. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost  
Auditor of State

April 30, 2015

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## INDEPENDENT AUDITORS' REPORT

Board of Education  
Northwestern Local School District  
5610 Troy Road  
Springfield, Ohio 45502

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Northwestern Local School District (the District) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditors' Responsibility

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

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

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

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## **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the District, as of June 30, 2014, and the respective changes in financial position thereof and the budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis on pages 4 through 14 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards (the Schedule), as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The Schedule is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated January 30, 2015 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

*Clark, Schaefer, Hackett & Co.*

Springfield, Ohio  
January 30, 2015



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Northwestern Local School District  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2014  
Unaudited

The discussion and analysis of Northwestern Local School District's financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2014. The intent of this discussion and analysis is to look at the School District's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the School District's financial performance.

### **Financial Highlights**

Key financial highlights for 2014 are as follows:

Net position, excluding amounts net investment in capital assets, was \$12.33 million. Of this amount, \$4.64 million is restricted for the School District's capital outlay use.

General revenues accounted for \$18.29 million in revenue or 85.83 percent of all revenues. Program specific revenues in the form of charges for services, grants and contributions accounted for \$3.02 million or 14.17 percent of total revenue of \$21.31 million.

Assets decreased by \$6.37 million as the remaining restricted cash was used to finish the construction project. The School District demolished the old school facilities and removed those assets and majority of the equipment related which partially offset current year capital asset additions.

The School District had \$20.44 million in program expenses related to governmental activities; only \$3.02 million of these expenses were offset by program specific charges for services, grants or contributions. General revenues and were sufficient to cover the net expense of the programs, however the loss on disposal of assets (special item) resulted in the decrease in net position.

The General Fund had \$16.83 million in revenues and \$15.34 million in expenditures. The General Fund's balance at the close of the current year was 33.48 percent of the current year's expenditures increasing from last year's 28.85 percent which demonstrates the School District's effective use of tax dollars.

### **Overview of the Financial Statements**

The discussion and analysis is intended to serve as an introduction to the School District's basic financial statements. The School District's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

Northwestern Local School District  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2014  
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**Government-wide financial statements.** The *government-wide financial statements* are designed to provide readers with a broad overview of the School District's finances, in a manner similar to private-sector business.

The *statement of net position* presents information on all the School District's assets, deferred inflows of resources and liabilities, with the difference reported as *net position*. Over time, increases and decreases in net position may serve as a useful indicator of whether the financial position of the School District is improving or deteriorating.

The *statement of activities* presents information showing how the School District's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g. uncollected taxes and earned but unused vacation leave.)

Both of the government-wide financial statements distinguish functions of the School District that are principally supported by taxes and intergovernmental revenues (*governmental activities*). The government-wide financial statements can be found on pages 15 - 16 of this report.

**Fund financial statements.** A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The School District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All the funds of the School District can be divided into two categories: governmental funds and fiduciary funds.

*Governmental funds.* Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the School District's near-term financing requirements.

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Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between the governmental activities statement of net position and statement of activities.

The School District maintains sixteen individual governmental funds. Information is presented separately in the governmental fund balance sheet and the statement of fund revenues, expenditures and changes in fund balance for the General Fund, Bond Retirement and Classroom Facilities Fund which are considered major funds. Data from the other thirteen governmental funds are combined into a single, aggregate presentation.

The School District adopts an annual appropriation budget for all of its governmental funds. Budgetary comparison statements have been provided for the General Fund to demonstrate compliance with this budget. The basic governmental fund financial statements can be found on pages 17 - 19 of this report.

*Fiduciary Funds.* Fiduciary funds are used to account for resources held for the benefit of parties outside the School District. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the School District's own programs. The accounting used for fiduciary funds is much like that used in the government-wide financial statements. The basic fiduciary fund financial statement can be found on page 20 of this report.

*Notes to the Financial Statements.* The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements start on page 21 of this report.

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Government-Wide Financial Analysis

Recall that the Statement of Net Position provides the perspective of the School District as a whole. Table 1 provides a comparison of the School District's net position for 2013 to 2014.

**Table 1**  
**Net Position**  
**(in Millions)**

	<u>2013</u>	<u>2014</u>	<u>Change</u>
<b>Assets</b>			
Current and Other Assets	\$16.17	\$20.31	\$4.14
Restricted Cash	14.48	1.91	(12.57)
Capital Assets	<u>48.73</u>	<u>50.79</u>	<u>2.06</u>
Total Assets	<u>79.38</u>	<u>73.01</u>	<u>(6.37)</u>
<b>Liabilities</b>			
Long-term Liabilities	(30.16)	(29.78)	(\$0.38)
Current and Other Liabilities	<u>(6.65)</u>	<u>(2.68)</u>	<u>(3.97)</u>
Total Liabilities	(36.81)	(32.46)	(4.35)
<b>Deferred Inflows of Resources</b>			
Property Taxes	<u>(5.95)</u>	<u>(7.44)</u>	<u>1.49</u>
<b>Net Position</b>			
Net Investment in Capital Assets	28.40	20.78	(7.62)
Restricted for:			
Perpetual Care	0.01	0.01	0.00
Debt Service	1.65	2.45	0.80
Other Purposes	0.33	0.18	(0.15)
Capital Improvements	2.24	4.64	2.40
Unrestricted	<u>3.99</u>	<u>5.05</u>	<u>1.06</u>
<b>Total Net Position</b>	<u><u>\$36.62</u></u>	<u><u>\$33.11</u></u>	<u><u>(\$3.51)</u></u>

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Graphs 1 and 2 break down the School District's Fiscal Year 2014 revenue into percentages by type of revenue.

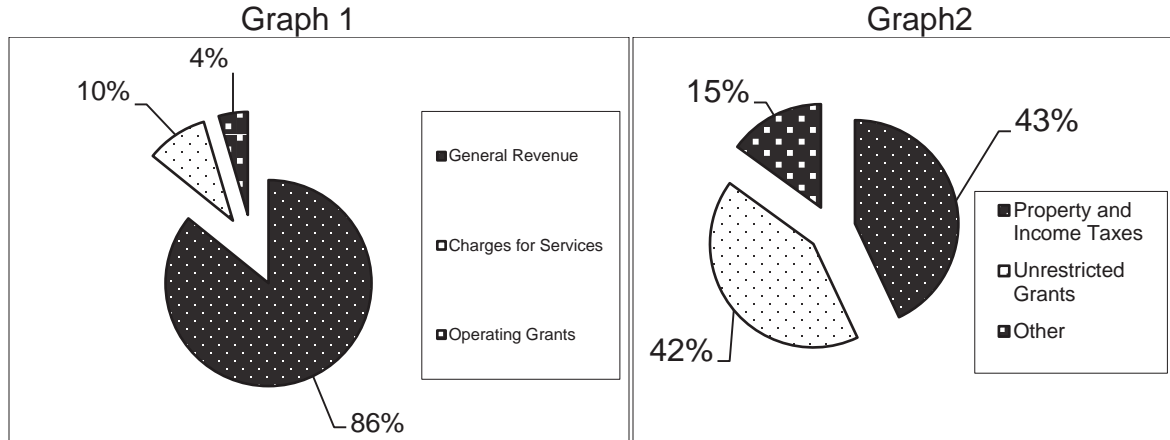


Table 2 shows the revenue for the School District as a whole during fiscal years 2013 and 2014.

**Table 2**  
**Revenues**  
**(in Millions)**

Revenues	2013	2014	Change
<b>Program Revenues</b>			
Charges for Services	\$2.13	\$2.05	(\$0.08)
Operating Grants/Contributions	1.05	0.97	(0.08)
<b>General Revenues</b>			
Property Taxes	6.92	6.96	0.04
Income Taxes	2.08	2.12	0.04
Unrestricted Grants	8.47	8.90	0.43
School Facilities Commission Grant	0.11	0.00	(0.11)
Investment Earnings	(0.04)	0.12	0.16
Other	0.07	0.19	0.12
<b>Total Revenues</b>	<b>\$20.79</b>	<b>\$21.31</b>	<b>\$0.52</b>

Table 3 shows total program expenses for fiscal years 2013 and 2014.

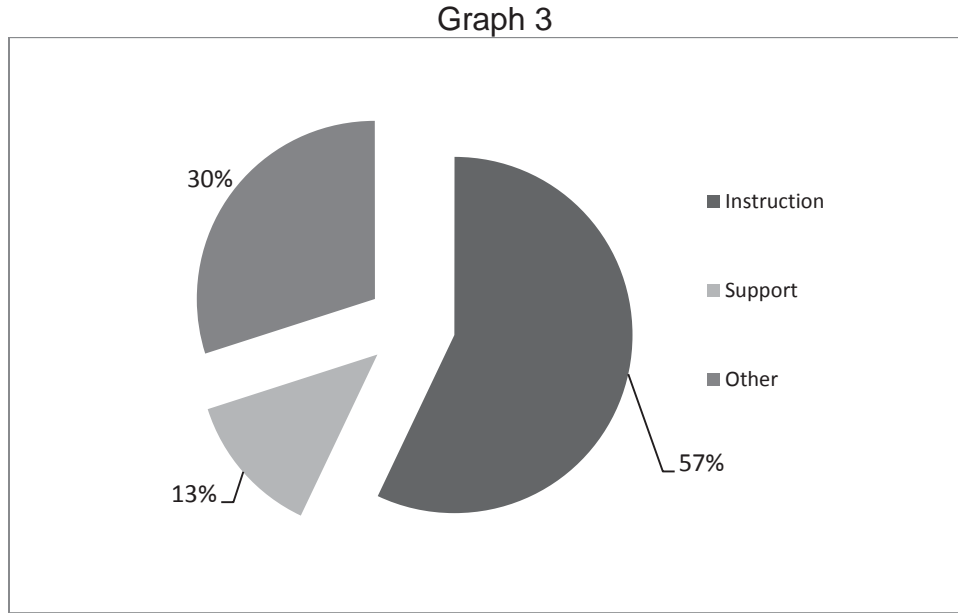
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**Table 3**  
**Total Program Expenses**  
(in millions)

	<u>2013</u>	<u>2014</u>	<u>Change</u>
<b>Program Expenses</b>			
<b>Instruction</b>			
Regular	\$7.93	\$9.60	\$1.67
Special	1.85	2.08	0.23
Other	0.00	0.00	0.00
<b>Support Services</b>			
Pupil/Staff	1.44	1.68	0.24
Administration	1.06	1.01	(0.05)
<b>Other Expenses</b>			
Maintenance	1.37	1.38	0.01
Transportation	1.17	1.11	(0.06)
Other	0.63	0.68	0.05
Food Services/Latchkey	0.67	0.63	(0.04)
Extracurricular Activities	0.45	0.52	0.07
Interest and Fiscal Charges	1.71	1.75	0.04
Total Expenses	<u>18.28</u>	<u>20.44</u>	<u>2.16</u>
Special Item	0.00	(4.38)	(4.38)
Change in Net Position	2.51	(3.51)	(6.02)
Beginning Balance	<u>34.11</u>	<u>36.62</u>	<u>2.51</u>
Ending Balance	<u><u>\$36.62</u></u>	<u><u>\$33.11</u></u>	<u><u>(\$3.51)</u></u>

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Graph 3 shows a breakdown of Fiscal Year 2014 expenses by percentages in the major categories.



The School District saw the property taxes increase over the prior year as the School District's valuation increased by over six percent (see Note 6). Unrestricted grants increased as well as the School District's foundation revenue increased by over seven percent from the fiscal year 2013 amounts as listed on the Ohio Department of Education settlement reports. The School District reports a special item for the net disposal amount for removing the old school facilities and equipment with the new buildings operating. The School District also changed the capitalization threshold during the fiscal year.

### The Major Funds

The School District's presentation of the major funds starts on page 17. These funds are accounted for using the modified accrual basis of accounting, focusing on the near term financial resources of the School District. All governmental funds had total revenues of \$21.88 million and expenditures of \$27.36 million. The net change in fund balance for the year was a decrease of \$5.40 million in all funds. The net change was most significant in the Classroom Facilities Fund with a decrease of \$7.45 million as the bond proceeds were spent down during the construction of the two new buildings.

The General Fund recognized \$1.58 million in current liabilities for fiscal year 2014. Accrued salaries and benefits accounted for 75.80% of those liabilities. Property Taxes Receivable accounted for 87.7% of the \$7.54 million receivables in the General Fund.



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In the Classroom Facilities Fund, cash and cash equivalents accounted for \$2.94 million of the \$3.06 million of assets compared to \$14.93 million in fiscal year 2013 which was mostly restricted cash and cash equivalents.

For the current year, the bond retirement fund qualifies as a major fund as all four tests for a major fund were met. The fund holds \$1.60 million in restricted investments with trustee for the sinking fund bond payments on the School District's qualified school construction bonds.

**General Fund Budgetary**

Table 4 depicts the change from the original to the final General Fund revenue budget for the fiscal year ended June 30, 2014.

**Table 4**  
**Original Budget versus Final Budget for General Fund Revenues**

	Budget	
	Original	Final
<b>Revenues</b>		
Property and Other Local Taxes	\$5,508,951	\$5,590,123
Income Tax	1,944,244	2,044,630
Intergovernmental	6,737,483	7,477,732
Other	1,351,503	1,351,503
<b>Total Revenues</b>	<b>15,542,181</b>	<b>\$16,463,988</b>

The original and final budgets are found on the Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget (Non-GAAP basis) and Actual Statement. The information for the original budget was taken from the certificate of estimated resources. The largest variance is in intergovernmental revenue as the original certificate was based on the prior year amounts and the School District saw foundation revenue increase.

The actual revenues were 3.81 percent higher than final budget figures. One of the differences was in the intergovernmental line item as the School District expected state foundation revenue increase was greater than anticipated. The property tax line also saw an increase which resulted from the advance the County provides the School District near June 30 each year. The School District does not anticipate that for the current fiscal year.

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Table 5 depicts the change from the original to the final general fund expenditures budget for the fiscal year ended June 30, 2014.

**Table 5**  
**Original Budget versus Final Budget for General Fund Expenditures**

	Budget	
	Original	Final
<b>Expenditures</b>		
Instruction	\$9,215,515	\$9,721,533
Support Services	4,991,572	5,262,908
Other	760,198	741,223
<b>Total Expenditures</b>	<u>\$14,967,285</u>	<u>\$15,725,664</u>

The original and final budgets are found on the Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget (Non-GAAP basis) and Actual Statement. The School District saw additional expenditures in the support services line items and amended the appropriations to account for those. Although the School District increased the final budget, the actual expenditures actually came less than two percent above the original appropriations. The variance between final budget and actual expenditures was just over three percent with regular instruction accounting for most of that reduction.

**Capital Assets**

At the end of the year, the School District had \$50,789,723 invested in land, construction in progress, buildings, equipment, and vehicles net of accumulated depreciation. For more detail information about the capital assets, refer to Note 9. Table 6 shows the breakdown of the individual classes for capital assets:

**Table 6**  
**Capital Assets**

Class	Historical Cost	Accumulated Depreciation	Book Value
Land and Improvements	\$7,283,979	\$684,758	\$6,599,221
Buildings and Improvements	41,984,711	1,264,110	40,720,601
Furniture and Equipment	3,456,531	415,125	3,041,406
Vehicles	1,828,814	1,400,319	428,495
<b>Totals</b>	<u>\$54,554,035</u>	<u>\$3,764,312</u>	<u>\$50,789,723</u>

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**Debt Administration**

The School District retired the capital lease for an addition to Northwestern Elementary during the year. For further information on the School District's lease obligation refer to Note 14 of the financial statements.

On May 26, 2010, the School District sold Qualified School Construction Bonds in the amount of \$15,000,000. The entire principal is due December 1, 2026. The bonds were sold a taxable rate of 5.82%. The United States Treasury will issue checks to the School District to pay 5.50% interest. The net interest cost to the district will be 0.32%.

On November 23, 2010, the School District sold Build America Bonds in the amount of \$13,240,000. The final principal payment is due December 1, 2038. The bonds were sold at an average net interest rate of 4.21%. The United States Treasury will issue checks to the School District to pay 35% of interest costs. Principal payments of \$300,000 were made during fiscal year 2014 which resulted in an outstanding balance of \$12,240,000 at June 30, 2014

On March 31, 2011, the School District sold Qualified School Construction Bonds for a HB 264 Energy Conservation Project in the amount of \$1,385,000. The entire principal is due December 1, 2025. The bonds were sold at a taxable rate of 5.80%. The United States Treasury will issue checks to the School District to pay 5.30% interest. The net interest cost to the district will be 0.50%.

For further information on the School District's long-term obligations see Note 15 of the financial statements.

**For the Future**

State funding and property value reappraisal will be a major issue for the School District. The current state funding formula resulted in additional state funding in Fiscal Year 2014 and 2015. A new state budget will be approved in 2015, so funding could change again. Property values increased in the most recent reappraisal. This had a positive impact on district revenues.

In November, 2009, the voters of the School District approved a new 1% continuing earned income tax. This is additional revenue that started with small collections in April, 2010. In August, 2010, the voters approved a new substitute levy that will replace the expiring emergency levies. Although this is not additional revenue, it does keep the current funding from these levies. The substitute levy must be renewed by November, 2016.

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The November, 2009 vote also included the approval of a bond issue to build two new school buildings to replace the three buildings that were in use at that time. Grades 7 – 12 moved into the new Northwestern Junior/Senior High School in August, 2013. Grade PK – 6 moved into the new Northwestern Elementary School in November, 2013. The old building were demolished in 2014.

In conclusion, the Northwestern Local School District has committed itself to financial excellence for many years. Before the November, 2009 levy, the last increase in local tax millage was approved in 1992. The School District's system of financial planning, budgeting, and internal financial controls are well regarded. Current economic conditions present possible major challenges. Budget cuts have been made over the last couple years and more cuts may be made in the future as the revenue decreases. The School District plans to continue its sound fiscal management to meet the challenges of the future.

**Contacting the School District's Financial Management**

This financial report is designed to provide our citizens, taxpayers, and investors and creditors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have questions about this report or need additional financial information contact David Bollheimer, Office of the Treasurer, Northwestern Local Schools, 5610 Troy Road, Springfield, OH 45502.

**Northwestern Local School District**  
**Clark County, Ohio**  
**Statement of Net Position**  
**June 30, 2014**

	Primary Government Governmental Activities
<b><u>Assets</u></b>	
Equity in Pooled Cash and Cash Equivalents	\$10,703,519
Receivables:	
Property and Other Taxes	8,437,173
Income Taxes	826,113
Accounts	31,183
Accrued Interest	2,157
Intergovernmental	251,698
Materials and Supplies Inventory	51,324
Prepaid Items	2,915
Restricted Cash and Cash Equivalents	39,318
Restricted Investments with Trustee	1,875,429
Non-Depreciable Capital Assets	949,676
Depreciable Capital Assets	49,840,047
Total Assets	73,010,552
<b><u>Liabilities</u></b>	
Payables:	
Accounts	40,516
Contracts	288,768
Retainage	746,357
Intergovernmental	290,562
Interest	16,182
Salaries and Employee Benefits	1,291,261
Noncurrent Liabilities:	
Due within one year	402,093
Due in more than one year	29,380,047
Total Liabilities	32,455,786
<b><u>Deferred Inflows of Resources:</u></b>	
Property Taxes	7,444,442
Total Deferred Inflows of Resources	7,444,442
<b><u>Net Position</u></b>	
Net investment in capital assets	20,784,201
Restricted for:	
Debt Service	2,450,585
Perpetual Care	5,362
Capital Improvements	4,644,467
Other Purposes	175,370
Unrestricted	5,050,339
Total Net Position	\$33,110,324

See accompanying notes to the basic financial statements

**Northwestern Local School District**  
**Clark County, Ohio**  
**Statement of Activities**  
**For the Fiscal Year Ended June 30, 2014**

<u>Function/Programs</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue and</u>
	<u>Expenses</u>	<u>Charges for</u>	<u>Operating</u>	<u>Changes in Net Position</u>
		<u>Services</u>	<u>Grants and</u>	<u>Governmental</u>
			<u>Contributions</u>	<u>Activities</u>
Governmental Activities:				
Instruction:				
Regular	\$9,597,337	\$1,427,047	\$52,634	(\$8,117,656)
Special	2,080,008	0	412,204	(1,667,804)
Other	4,878	0	0	(4,878)
Support Services:				
Pupils	1,043,059	5,198	118,821	(919,040)
Instructional Staff	637,024	0	75,777	(561,247)
Board of Education	84,781	0	0	(84,781)
Administration	1,014,367	0	0	(1,014,367)
Fiscal	527,225	0	0	(527,225)
Operation and Maintenance of Plant	1,380,818	1,466	0	(1,379,352)
Pupil Transportation	1,113,463	0	0	(1,113,463)
Central	7,949	0	0	(7,949)
Operation of Non-Instructional Services	62,020			(62,020)
Food Service	581,177	275,069	311,965	5,857
Latchkey	44,965	33,610	0	(11,355)
Extracurricular Activities	515,351	303,881	0	(211,470)
Interest and Fiscal Charges	1,746,401	0	0	(1,746,401)
<b>Total Primary Government</b>	<b>\$20,440,823</b>	<b>\$2,046,271</b>	<b>\$971,401</b>	<b>(17,423,151)</b>

General Revenues:	
Property Taxes - General Purpose	5,464,127
Property Taxes - Debt Service	1,308,804
Property Taxes - Capital	183,497
Income Taxes	2,121,184
Grants and Contributions not restricted to specific programs	8,900,204
Unrestricted investment earnings	118,211
Miscellaneous	192,412
Special Item - Disposal of Assets	(4,378,530)
Total General Revenues and Special Items	<u>13,909,909</u>
Changes in Net Position	(3,513,242)
Net Position-Beginning	<u>36,623,566</u>
Net Position-Ending	<u>\$33,110,324</u>

See accompanying notes to the basic financial statements

**Northwestern Local School District**  
**Clark County, Ohio**  
**Balance Sheet - Governmental Funds**  
**June 30, 2014**

	General	Bond Retirement	Classroom Facilities	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>					
Equity in Pooled Cash and Cash Equivalents	\$5,507,481	\$354,239	\$2,939,982	\$1,901,817	\$10,703,519
Receivables:					
Property and Other Taxes	6,614,205	1,605,226	0	217,742	8,437,173
Accounts	30,776	0	0	407	31,183
Income Taxes	826,113	0	0	0	826,113
Accrued Interest	2,157	0	0	0	2,157
Intergovernmental	51,159	0	123,713	76,826	251,698
Interfund	17,240	0	0	0	17,240
Prepaid Items	2,915	0	0	0	2,915
Materials and Supplies Inventory	47,046	0	0	4,278	51,324
Restricted Assets:					
Cash and Cash Equivalents	39,318	0	0	0	39,318
Investments with Trustee	0	1,597,602	0	277,827	1,875,429
<b>Total Assets</b>	<b>\$13,138,410</b>	<b>\$3,557,067</b>	<b>\$3,063,695</b>	<b>\$2,478,897</b>	<b>\$22,238,069</b>

**Liabilities, Deferred Inflows of Resources, and Fund Balances**

<b>Liabilities</b>					
Payables:					
Accounts	\$39,746	\$275	\$0	\$495	\$40,516
Contracts	0	0	234,001	54,767	288,768
Retainage	0	0	746,357	0	746,357
Intergovernmental	260,643	0	0	29,919	290,562
Salaries and Employee Benefits	1,199,929	0	0	91,332	1,291,261
Interfund	0	0	0	17,240	17,240
Matured Leave Payable	82,788	0	0	0	82,788
<b>Total Liabilities</b>	<b>1,583,106</b>	<b>275</b>	<b>980,358</b>	<b>193,753</b>	<b>2,757,492</b>
<b>Deferred Inflows of Resources</b>					
Property Taxes	6,250,787	1,334,004	0	206,515	7,791,306
Income Taxes	141,200	0	0	0	141,200
Intergovernmental Revenue	0	0	108,588	24,707	133,295
Other Revenue	29,006	0	0	0	29,006
<b>Total Deferred Inflows of Resources</b>	<b>6,420,993</b>	<b>1,334,004</b>	<b>108,588</b>	<b>231,222</b>	<b>8,094,807</b>

**Fund Balances:**

Nonspendable	49,961	0	0	4,278	54,239
Restricted	39,318	2,222,788	1,974,749	1,989,330	6,226,185
Committed	0	0	0	92,414	92,414
Assigned	161,923	0	0	0	161,923
Unassigned	4,883,109	0	0	(32,100)	4,851,009
<b>Total Fund Balances</b>	<b>5,134,311</b>	<b>2,222,788</b>	<b>1,974,749</b>	<b>2,053,922</b>	<b>11,385,770</b>
<b>Total Liabilities, Deferred Inflows of Resources and Fund Balances</b>	<b>\$13,138,410</b>	<b>\$3,557,067</b>	<b>\$3,063,695</b>	<b>\$2,478,897</b>	<b>\$22,238,069</b>

See accompanying notes to the basic financial statements

**Reconciliation of Total Governmental Fund Balances to Net Position of Governmental Activities**

Total Governmental Fund Balances \$11,385,770

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. 50,789,723

Some of the School District's revenues will be collected after fiscal year-end, but are not available soon enough to pay for the current period's expenditures and therefore are deferred in the funds. 650,365

Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds. (29,715,534)

**Net Position of Governmental Activities** \$33,110,324

**Northwestern Local School District**  
**Clark County, Ohio**  
**Statement of Revenues, Expenditures and Changes in Fund Balances -**  
**Governmental Funds**  
**For the Fiscal Year Ended June 30, 2014**

	General	Bond Retirement	Classroom Facilities	Other Governmental Funds	Total Governmental Funds
<b>Revenues:</b>					
Property and Other Taxes	\$5,460,079	\$1,305,704	\$0	\$183,238	\$6,949,021
Income Taxes	2,133,647	0	0	0	2,133,647
Intergovernmental	7,557,820	1,222,287	575,683	1,112,491	10,468,281
Charges for Services	5,198	0	0	275,069	280,267
Tuition and Fees	1,421,460	0	0	46,587	1,468,047
Interest	29,376	74,172	(884)	15,547	118,211
Rent	1,466	0	0	0	1,466
Gifts and Donations	1,410	0	0	0	1,410
Extracurricular Activities	144,204	0	0	122,063	266,267
Miscellaneous	75,759	0	0	122,326	198,085
<b>Total Revenues</b>	<b>16,830,419</b>	<b>2,602,163</b>	<b>574,799</b>	<b>1,877,321</b>	<b>21,884,702</b>
<b>Expenditures:</b>					
Current Instruction:					
Regular	7,842,425	0	0	68,383	7,910,818
Special	1,637,289	0	0	447,910	2,085,199
Other	4,878	0	0	0	4,878
Support Services:					
Pupils	905,357	0	0	121,642	1,026,999
Instructional Staff	322,338	0	0	89,034	411,372
Board of Education	84,781	0	0	0	84,781
Administration	1,020,933	1,866	0	256	1,023,055
Fiscal	487,232	24,778	0	3,488	515,498
Operation and Maintenance of Plant	1,282,228	0	0	66,449	1,348,677
Pupil Transportation	1,092,587	0	0	235	1,092,822
Central	7,949	0	0	0	7,949
Operation of Non-Instructional Services	0	0	0	626,243	626,243
Extracurricular Activities	315,651	0	0	157,746	473,397
Capital Outlay	333,834	0	8,022,654	255,762	8,612,250
Debt Service:					
Principal Retirement	0	300,000	0	95,000	395,000
Interest and Fiscal Charges	0	1,655,307	0	83,013	1,738,320
<b>Total Expenditures</b>	<b>15,337,482</b>	<b>1,981,951</b>	<b>8,022,654</b>	<b>2,015,171</b>	<b>27,357,258</b>
Excess of Revenues Over Expenditures	1,492,937	620,212	(7,447,855)	(137,850)	(5,472,556)
<b>Other Financing Sources (Uses):</b>					
Sale of Capital Assets	5,046	0	0	63,945	68,991
Transfers - In	0	0	0	660,721	660,721
Transfers - Out	(660,721)	0	0	0	(660,721)
<b>Total Other Financing Sources (Uses)</b>	<b>(655,675)</b>	<b>0</b>	<b>0</b>	<b>724,666</b>	<b>68,991</b>
<b>Net Change in Fund Balances</b>	<b>837,262</b>	<b>620,212</b>	<b>(7,447,855)</b>	<b>586,816</b>	<b>(5,403,565)</b>
Fund Balances - beginning	4,297,049	1,602,576	9,422,604	1,467,106	16,789,335
Fund Balances - ending	\$5,134,311	\$2,222,788	\$1,974,749	\$2,053,922	\$11,385,770

See accompanying notes to the basic financial statements

**Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities**

**Net Change in Governmental Fund Balances** (\$5,403,565)

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.

5,384,965

The proceeds from the sale of capital assets are reported as revenue in the governmental funds. However, the cost of capital assets is removed from the capital assets account in the Statement of Net Position and offset against the proceeds from the sale of capital assets resulting in a loss on the sale of capital assets in the Statement of Activities.

(3,327,845)

Loss on disposal of capital assets

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

(597,148)

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on Net Position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.

95,000  
300,000  
18,557

Principal paid on leases  
Principal paid on bonds  
Current year bond premium amortized

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

(8,081)  
24,875

Change in accrued interest payable  
Change in compensated absences payable

**Change in net position of governmental activities** (\$3,513,242)



**Northwestern Local School District**  
**Clark County, Ohio**  
**Statement of Revenues, Expenditures and Changes**  
**in Fund Balance - Budget (Non-GAAP Basis) and Actual -**  
**General Fund**  
**For the Fiscal Year Ended June 30, 2014**

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget
				Positive (Negative)
<b><u>Revenues:</u></b>				
Property and Other Local Taxes	\$5,508,951	\$5,590,123	\$5,815,298	\$225,175
Intergovernmental	6,737,483	7,477,732	7,642,626	164,894
Income Taxes	1,944,244	2,044,630	2,134,461	89,831
Tuition and Fees	1,322,690	1,322,690	1,421,460	98,770
Interest	15,000	15,000	20,075	5,075
Charges for Services	0	0	5,198	5,198
Rent	2,000	2,000	1,898	(102)
Miscellaneous	11,813	11,813	50,936	39,123
<b>Total Revenues</b>	<b>15,542,181</b>	<b>16,463,988</b>	<b>17,091,952</b>	<b>627,964</b>
<b><u>Expenditures:</u></b>				
Current:				
Instruction:				
Regular	7,667,597	8,067,308	7,637,719	429,589
Special	1,541,928	1,648,000	1,624,302	23,698
Student Intervention Services	5,990	6,225	4,632	1,593
Support Services:				
Pupils	852,575	902,789	893,415	9,374
Instructional Staff	342,183	389,646	367,713	21,933
Board of Education	108,918	113,918	89,157	24,761
Administration	995,297	1,049,557	1,037,598	11,959
Fiscal	488,426	488,776	496,940	(8,164)
Operation and Maintenance of Plant	1,142,340	1,201,161	1,321,437	(120,276)
Pupil Transportation	1,040,905	1,096,133	1,115,113	(18,980)
Central	20,928	20,928	7,949	12,979
Extracurricular Activities	326,633	326,633	311,152	15,481
Capital Outlay	433,565	414,590	336,233	78,357
<b>Total Expenditures</b>	<b>14,967,285</b>	<b>15,725,664</b>	<b>15,243,360</b>	<b>482,304</b>
Excess of Revenues Over (Under) Expenditures	574,896	738,324	1,848,592	1,110,268
<b><u>Other Financing Sources (Uses):</u></b>				
Proceeds from Sale of Capital Assets	0	0	5,046	5,046
Refund of Prior Year Expenditures	0	20,000	9,889	(10,111)
Advances In	10,000	4,769	4,769	0
Advances Out	(20,000)	(20,000)	0	20,000
Transfers Out	(560,721)	(660,721)	(660,721)	0
<b>Total Other Financing Sources (Uses)</b>	<b>(570,721)</b>	<b>(655,952)</b>	<b>(641,017)</b>	<b>14,935</b>
<b>Net Change in Fund Balance</b>	<b>4,175</b>	<b>82,372</b>	<b>1,207,575</b>	<b>1,125,203</b>
Fund Balances at Beginning of Year	3,465,638	3,465,638	3,465,638	0
Prior Year Encumbrances Appropriated	54,267	54,267	54,267	0
<b>Fund Balance at End of Year</b>	<b>\$3,524,080</b>	<b>\$3,602,277</b>	<b>\$4,727,480</b>	<b>\$1,125,203</b>

See accompanying notes to the basic financial statements

**Northwestern Local School District  
Clark County, Ohio  
Statement of Fiduciary Assets and Liabilities -  
Fiduciary Funds  
June 30, 2014**

	<u>Agency</u>
<b><u>Assets</u></b>	
Equity in Pooled Cash and Cash Equivalents	<u>\$37,138</u>
<b><u>Liabilities</u></b>	
Due to Students	<u>37,138</u>
Total Liabilities	<u>\$37,138</u>
See accompanying notes to the basic financial statements	

**NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY**

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

The School District is located in Clark County It is staffed by 79 non-certificated employees including administrative employees and 126 certificated full-time teaching personnel who provide services to 1,744 students and other community members.

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

Component units are legally separate organizations for which the School District is financially accountable. The School District is financially accountable for an organization if the School District appoints a voting majority of the organization's governing board and (1) the School District is able to significantly influence the programs or services performed or provided by the organization; or (2) the School District is legally entitled to or can otherwise access the organization's resources; the School District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the School District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the School District in that the School District approves the budget, the issuance of debt, or the levying of taxes. The School District has no component units.

The School District is associated with four jointly governed organizations and one insurance purchasing pool. These organizations are discussed in Note 16 to the basic financial statements. These organizations are:

Jointly Governed Organizations:

- Miami Valley Educational Computer Association
- Southwestern Ohio Educational Purchasing Council
- Southwestern Ohio Instructional Technology Association
- Clark County Family and Children First Council

**NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY** (continued)

Insurance Purchasing Pool:  
Ohio School Boards Assoc. Workers' Compensation Group Rating Plan

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the Northwestern Local School District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The most significant of the School District's accounting policies are described below.

**A. Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the School District. The effect of interfund activity has been removed from these statements. *Governmental activities*, normally are supported by taxes and intergovernmental revenues.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program Revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds and fiduciary fund, even though the latter is excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

**B. Measurement focus, basis of accounting, and financial statement presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the School District considers revenues to be available if they are collected within sixty days of the end of the fiscal period. Expenditures generally are recorded when a liability is expected to be liquidated with expendable, available resources. However, debt expenditures for the capital lease and other long-term debt obligations, as well as compensated absences, are recorded only when payment is due.

Property taxes, grants and entitlements, tuition, fees, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered measurable and available only when cash is received by the School District.

*Fund Accounting*

The School District uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The District employs the use of two categories of funds: governmental and fiduciary.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

*Governmental Funds*

Governmental funds are those through which most governmental functions typically are financed. Governmental funds reporting focuses on the sources, uses, and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purpose for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets compared to deferred inflows of resources and liabilities is reported as fund balance.

The School District reports the following major governmental funds:

The *General Fund* is the School's District's primary operating fund. It accounts for all financial resources of the School District, except those required to be accounted for in another fund.

The *Bond Retirement Fund* is used to account for the accumulation of resources for and the payment of general obligation bond principal and interest and certain other long-term obligations from governmental resources when the School District is obligated in some manner for the payment.

The *Classroom Facilities Fund* is provided to account for monies received and expended in connection with contracts entered into by the School District and the Ohio School Facilities Commission for the constructing and equipping of the School District's new school buildings.

*Fiduciary Fund*

*Fiduciary fund* reporting focuses on net position and changes in net position. The District maintains only one fiduciary fund, an agency fund known as the Student Activities Fund. The fund was established to account for revenues generated by student managed activities. The District's agency fund is custodial in nature (assets equal liabilities) and reported on the accrual basis of accounting; however, it does not have a measurement focus.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

**C. Budgetary Process**

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

All funds, other than agency funds, are legally required to be budgeted and appropriated. The Board of Education determines the District's legal level of control through passage of the appropriation resolution, which was at the object level for the General Fund and at the fund level for all other funds. Any budgetary modifications at this level may only be made by resolution of the Board of Education.

*Tax Budget:*

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

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

*Estimated Resources:*

Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the County Budget Commission and receives the Commission's certificate of estimated resources which states the projected revenue of each fund. Prior to June 30, the School District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the certificate of estimated resources. The revised budget then serves as the basis for the appropriation measure. On or about July 1, the certificate is amended to include any unencumbered cash balances from the preceding year. The certificate may be further amended during the year if projected increases or decreases in revenue are identified by the School District Treasurer. The amounts reported in the budgetary statement reflect the amounts in the final amended certificate that was in effect at the time the final appropriations were passed by the Board of Education.

*Appropriations:*

Upon receipt from the County Auditor of an amended certificate of estimated resources based on final assessed values and tax rates or a certificate saying no new certificate is necessary, the annual appropriation resolution is legally enacted by the Board of Education. The Board of Education determines the District's legal level of control through passage of the appropriation resolution, which was at the object level for the General Fund and at the fund level for all other funds. Prior to the passage of the annual appropriation measure, the Board may pass a temporary appropriation measure to meet the ordinary expenses of the School District. The appropriation resolution, by fund, must be within the estimated resources as certified by the County Budget Commission. Some revisions that alter the total of any fund appropriation, or alter total object appropriations within the General Fund must be approved by the Board of Education. The Board may pass supplemental fund appropriations so long as the total appropriations by fund do not exceed the amounts set forth in the most recent certificate of estimated resources.



**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

During the year, several supplemental appropriations were legally enacted; however, none of them were significant. The budget figures that appear in the statement of budgetary comparisons represent the final appropriation amounts, including all supplemental appropriations. Formal budgetary integration is employed as a management control device during the year for all funds, other than agency funds, consistent with statutory provisions.

*Lapsing of Appropriations:*

At the close of each fiscal year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriation. Encumbered appropriations are carried forward to the succeeding fiscal year and are not reappropriated.

**D. Cash and Cash Equivalents**

To improve cash management, all cash received by the School District is pooled in a central bank account. Monies for all funds are maintained in this account or temporarily used to purchase short-term investments. Individual fund integrity is maintained through School District records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" on the statement of net position and governmental fund balance sheet.

The School District reports the sinking fund mandatory principal payment as "restricted investments with trustee" on the statement of net position and the governmental fund balance sheet. The School District reports the required Ohio Bureau of Workers Compensation refund as "restricted cash and cash equivalents" as originally required by the State of Ohio.

During fiscal year, the School District invested in the State Treasury Assets Reserve of Ohio (STAR Ohio). STAR Ohio is an investment pool managed by the State Treasurer's Office that 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 does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price that is the price the investment could be sold for on June 30.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year amounted to \$29,376 which includes \$15,920 assigned from other funds. The debt service fund, food service special revenue fund, permanent improvement levy, LFI construction, and classroom facilities capital projects fund received \$74,172, \$214, \$15,136, \$196, and (\$884) respectively, interest. The permanent fund received \$1 interest. The negative interest amount is from the negative change in fair value on the respective investments.

**E. Inventory**

Inventories of all funds are stated at cost. Cost is determined on a first-in, first-out basis. Inventory consists of expendable supplies held for consumption. The cost of inventory items is recorded as expenditure when consumed. Reported material and supplies inventory is reported as a nonspendable fund balance on the governmental fund balance sheet which indicates that it does not constitute available expendable resources even though it is a component of net current assets.

**F. Prepaid Items**

Payments made to vendors for services that will benefit periods beyond June 30, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed. The related fund balance is reported as nonspendable in the respective fund.

**G. Capital Assets and Depreciation**

Capital assets, which include property, plant, equipment, and vehicles, are reported on the government-wide statements. All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The School District increased the capitalization threshold to \$5,000 for the current year at the same time the new school buildings, related equipment and furniture were placed into operation. Due to this timing the effects of the change were insignificant. The School District does not have any infrastructure.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

Improvements are capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

Depreciation is computed using the straight-line method over an estimated useful life of eight years for vehicles, five to fifteen years for furniture and equipment, thirty to forty years for building and building improvements and fifteen to twenty years for land improvements. Improvements to fund capital assets are depreciated over the remaining useful lives of the related assets.

**H. Compensated Absences**

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the School District will compensate the employees for the benefits through paid time off or some other means. The School District records a liability for accumulated unused vacation time when earned for all employees with more than one year of service.

Sick leave benefits are accrued as a liability using the termination method. An accrual for earned sick leave is made to the extent that it is probable that benefits will result in termination payments. The liability is an estimate based on the School District's past experience of making termination payments.

For governmental funds, the current portion of unpaid compensated absences is the amount normally due for payment during the current year. Matured leave payable in the fund financial statements represents the entire current portion. These amounts are reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements. The entire liability is reported on the government-wide statement of net position.

**I. Accrued Liabilities and Long-Term Obligations**

All payables, accrued liabilities and other long-term obligations are reported on the government-wide financial statements. In general, governmental fund payables and accrued liabilities are reported as obligations of the funds regardless of whether they will be liquidated with current resources. However, compensated absences are reported as liabilities in the fund financial statements only to the extent they come due as a result of employee resignation or retirement.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

**J. Interfund Transactions**

Exchange transactions between funds are reported as revenues in the seller fund and as expenditures in the purchase funds. Flows of cash or goods from one fund to another without requirement for repayment are reported as interfund transfers. Repayments from funds responsible for particular expenditures to the funds that initially paid for them are not presented on the financial statements.

**K. Interfund Activity**

On the fund financial statements, receivables and payables resulting from short-term interfund loans or interfund services provided and used are classified as "Interfund Receivables/Payables." Interfund balances within governmental activities are eliminated on the government-wide statement of net position.

**L. Deferred Inflows of Resources**

Deferred inflows of resources arises when assets are recognized before revenue recognition criteria have been satisfied. Property taxes that are intended to finance future fiscal periods and grants and entitlements received before the eligibility requirements are met are recorded as deferred inflows of resources on both the government-wide and fund financial statements. On governmental fund financial statements, receivables that will not be collected within the available period have also been reported as deferred inflows of resources. The governmental funds report unavailable deferred inflows of resources for delinquent property taxes, income taxes, tuition an fees, and intergovernmental grants.

**M. Exchange/Non-Exchange Transactions**

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

Non-exchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (see Note 6). Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the School District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

**N. Restricted Assets**

Restricted assets in the General Fund are cash and cash equivalents whose use is limited by legal requirements. Restricted assets represent resources required by statute to be set-aside by the School District to create a reserve for budget stabilization. See Note 18 for the calculation of the year-end restricted asset balance. In the Bond Retirement and other governmental funds, restricted investments with trustee represent the year end balance in the mandatory sinking fund related to the payments made as part of the trustee indenture. Similar payments related to the Energy Conservation Bonds are also reported as restricted assets.

**O. Special Items**

The School District reports a special item on the statement of activities in relation to the demolition (disposal) of the old school facilities and equipment. A special item are transactions or events that are in the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. In fiscal year 2014, the School District reported a loss for the carrying value of the old buildings and equipment (\$3,327,845) as well as the demolition cost incurred during the current year (\$1,050,685). This transaction results in a significant amount that is not within the normal operating activities of the School District.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

**P. Fund Balance**

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

- Nonspendable fund balance relates to the value of consumable inventories and prepaids.
- Restricted fund balances related to resources that have external purpose restraints imposed on them by providers such as grantors.
- Committed fund balances are balances the School District Board has determined can be used only for specific purposes through formal resolution.
- Assigned fund balances are balances intended to be used for specific purposes through the School District's formal purchasing procedure by the Treasurer.
- Unassigned fund balance is the residual classification for the general fund or deficit fund balance in all other governmental funds.

When the School District has multiple fund balances available within a particular fund, the School District will spend the funds in the following order – committed, assigned then unassigned. Nonspendable and restricted balance are subject to the governing documents and not subject to School District policy for spending the balances.

The School District applies restricted resources first when an expenditure is incurred for purposes for which both restricted and unrestricted fund balances are available.

**Q. Net Position**

Net position represents the difference between assets compared to deferred inflows of resources and liabilities in the statement of net position. Net position net investment in capital assets are calculated, net of accumulated depreciation and reduced by the outstanding balances of any borrowing used for the acquisition, construction, or improvement of those assets including payables related to that construction (\$1,035,125). Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

Northwestern Local School District  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2014

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

The School District applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net position are available.

**R. Estimates**

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

**S. Reconciliation of government-wide and fund financial statements**

*Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net position.*

The governmental fund balance sheets includes a reconciliation between *fund balance – total governmental funds* and *net position – governmental activities* as reported in the government-wide statement of net position. One element of that reconciliation explains that “long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.” The details of this (\$29,715,534) difference are as follows:

Bonds Payable	(\$28,625,000)
Premium on Bonds	(345,397)
Accrued Interest	(16,182)
Compensated Absences	(728,955)
	_____
Net Adjustment to reduces <i>fund balance – total governmental funds</i> to arrive at <i>net position – governmental activities</i>	(\$29,715,534)
	_____

Another element of that reconciliation explains that “capital assets used in governmental activities are not financial resources and, therefore, are not reported in the fund.” The details of the \$50,789,723 difference are as follows:

Capital Assets	\$54,554,035
Accumulated Depreciation	(3,764,312)
	_____
Net Adjustment to increase <i>fund balance – total governmental funds</i> to arrive at <i>net position – governmental activities</i>	\$50,789,723
	_____

Northwestern Local School District  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2014

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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

*Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities.*

The reconciliation states that “Capital additions are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense.” The details of this \$5,384,965 are as follows:

Current Capital Additions	\$7,659,161
Depreciation Expense	<u>(2,274,196)</u>
Net Adjustment – capital assets to increase <i>fund balance</i> – <i>total governmental funds</i> to arrive at <i>net position</i> – <i>governmental activities</i>	<u>\$5,384,965</u>

**NOTE 3 - ACCOUNTABILITY AND COMPLIANCE**

At June 30, 2014, the IDEA VI-B, Title I and Title IIA special revenue funds have deficit fund balances of \$11,704, \$16,093 and \$4,296 respectively.

The General Fund is liable for any deficit in these special revenue funds and provides transfers to cover deficit balances; however, this is done when cash is needed rather than when accruals occur.

**NOTE 4 - BUDGETARY BASIS OF ACCOUNTING**

While the School District is reporting financial position, results of operations, and changes in fund balances on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances.

The Statement of Revenues, Expenditures and Changes in Fund Balances - Budget (non-GAAP Basis) and Actual – General Fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and GAAP basis are that:

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).



Northwestern Local School District  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2014

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**NOTE 4 - BUDGETARY BASIS OF ACCOUNTING** (continued)

2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures/expenses for all funds (budget basis) rather than as a restricted, committed or assigned fund balance.
4. Advances are operating transactions (budget) as opposed to balance sheet transactions (GAAP basis).
5. The net revenues and expenditures recorded on a GAAP basis from funds reclassified under GASB 54 are reported independent from revenues and expenditures reported only in the General Fund.

The following tables summarize the adjustments necessary to reconcile the GAAP and budgetary basis statements.

Net Change in Fund Balances - General Fund	
GAAP Basis:	\$837,262
Revenue Accruals	431,610
Expenditure Accruals	(26,200)
Encumbrances	(20,013)
Advances	4,769
GASB 54 net effect	(19,853)
Budget Basis	<u>\$1,207,575</u>

**NOTE 5- DEPOSITS AND INVESTMENTS**

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

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

Inactive deposits are public deposits that the Board of Education has identified as not required for use within the current two-year period of designation of depositories.

**NOTE 5 - DEPOSITS AND INVESTMENTS** (continued)

Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

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

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

State statute permits interim monies to be deposited or invested in the following securities:

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

**NOTE 5 - DEPOSITS AND INVESTMENTS** (continued)

5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio); and
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred eighty days from the date of purchase in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time.

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

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

The following information classifies deposits and investments by categories of risk as defined in GASB Statement No. 3, "Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements."

**A. Deposits**

At fiscal year end, the carrying amount of the School District's deposits was \$5,002,953 and the bank balance was \$6,085,000. \$250,000 was insured by federal depository insurance. Based on criteria described in GASB 40, "Deposits and Investment Risk Disclosures", as of June 30, 2014, \$5,835,000 of the School District's bank balance was exposed to custodial credit risk because it was uninsured and uncollateralized with securities held by the pledging financial institution's trust department or agent, but not in the School District's name.

Northwestern Local School District  
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**NOTE 5 - DEPOSITS AND INVESTMENTS** (continued)

The School District has no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the School District or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least one hundred five percent of the deposits being secured.

**B. Investments**

As of June 30, 2014, the School District had the following investments.

	Fair Value	Investment Maturities (in Years)			Concentration of Credit Risk
		Less than 1	1-5	Over 5	
STAROhio	\$158,466	\$158,466	\$0	\$0	2.07%
Federal National Mortgage Notes	852,901	0	852,901	0	11.15%
Federal Farm Credit Corporation Notes*	1,189,312	0	0	1,189,312	15.54%
Federal Home Loan Bank Bonds	2,434,592	1,594,984	194,456	645,152	31.81%
Federal Home Loan Mortgage Corporation Notes	735,268	0	735,268	0	9.61%
First American Government Money Market Fund	254,467	254,467	0	0	3.33%
Fifth Third Institution Government Money Market Funds	243,165	243,165	0	0	3.17%
Commerical Paper	1,519,052	1,519,052	0	0	19.85%
U.S. Treasury Notes	265,228	0	265,228	0	3.47%
Totals	<u>\$7,652,451</u>	<u>\$3,770,134</u>	<u>\$2,047,853</u>	<u>\$1,834,464</u>	

\* The School District has their sinking fund payments invested to match the debt payment, which currently is 11.52 years from maturity.

**Interest Rate Risk** - The School District has no investment policy that addresses interest rate risk. State statute requires that an investment mature within five years from the date of purchase, unless matched to a specific obligation or debt of the School District, and that an investment must be purchased with the expectation that it will be held to maturity.

**NOTE 5 - DEPOSITS AND INVESTMENTS** (continued)

**Credit Risk** - The Federal National Mortgage Association Notes, Federal Farm Credit Corporation Notes, Federal Home Loan Bank Notes, and Federal Home Mortgage Corporation Notes carry a rating of Aaa from Moodys and AA+ from Standard and Poor's. The commercial paper carries a P-1 rating from Moodys and A-1+ from Standard and Poor's. The First American Treasury Market fund carries a AAAM rating from Standard and Poor's. STAR Ohio carries a AAAM rating from Standard and Poor's. The Fifth Third Government Money Market carries a AAAM rating from Standard and Poor's. The School District has no investment policy that would further limit its investment choices.

**Custodial Credit Risk** - For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the School District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The School District has no investment policy dealing with investment custodial risk beyond the requirement in state statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the treasurer or qualified trustee.

**Concentration of Credit Risk** - The School District places no limit on the amount it may invest in any one issuer other than commercial paper. Provided the Treasurer has completed additional training that has been approved under the supervision of the Auditor of State, the Treasurer is authorized to invest a maximum of twenty-five percent (25%) of the School District's interim fund in either or a combined total of: (1) commercial paper notes issued by a for-profit corporation, business trust or associated, real estate investment trust, common-law trust, unincorporated business or general or limited partnership which has assets exceeding \$500,000,000. Such commercial paper notes must: (a) be rated at the time of purchase in the highest classification established by at least two (2) rating services; (b) have an aggregate value that does not exceed ten percent (10%) of the outstanding commercial paper of the issuing entity; (c) mature within 180 days after purchase or (2) banker acceptances.

Cash and cash equivalents and investments are pooled for balance sheet classification on the basic financial statements because the pool consists of deposits, short-term investments or long-term investments that can be converted to liquid assets.

Northwestern Local School District  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2014

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**NOTE 6 - PROPERTY TAXES**

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

Property taxes include amounts levied against all real property and public utility tangible personal property located in the School District. Property tax revenue received during calendar 2014 for real and public utility property taxes represents collections of calendar 2013 taxes.

2014 real property taxes are levied after April 1, 2014, on the assessed value as of January 1, 2014, the lien date. Assessed values are established by State law at thirty-five percent of appraised market value.

Public utility tangible personal property currently is assessed at varying percentages of true value; public utility real property is assessed at thirty-five percent of true value. 2013 public utility property taxes became a lien December 31, 2013, are levied after April 1, 2014, and are collected in 2014 with real property taxes.

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

The School District receives property taxes from Clark and Champaign Counties. The Clark and Champaign County Auditors periodically advance to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2014, are available to finance fiscal year 2014 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable represents delinquent taxes outstanding and real property, personal property and public utility taxes, which became measurable as of June 30, 2014, and for which there is an enforceable claim. Although total property tax collections for the next fiscal year are measurable, only the amounts available as an advance at June 30, were levied to finance current year operations.

Northwestern Local School District  
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**NOTE 6 - PROPERTY TAXES** (continued)

The receivable is therefore offset by a credit to deferred inflows of resources for that portion not levied to finance current year operations. The total amount available as an advance at June 30, 2014 was \$645,867 and is recognized as revenue. \$363,418 was available to the general fund, \$271,222 was available to the bond retirement fund, and \$11,227 was available to the permanent improvement capital projects fund.

The assessed values upon which fiscal year 2014 taxes were collected are:

	2013 Second- Half Collections		2014 First- Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential and Other Real Estate	\$205,570,360	96.81%	\$219,307,660	96.71%
Public Utility Personal	6,782,480	3.19	7,459,100	3.29
Total Assessed Value	<u>\$212,352,840</u>	<u>100.00%</u>	<u>\$226,766,760</u>	<u>100.00%</u>
Tax rate per \$1,000 of Assessed valuation	\$33.45		\$38.76	

**NOTE 7 – INCOME TAX**

The School District levies an income tax of one percent on substantially all income earned by School District residents.

Employers with employees based in the state of Ohio are required to withhold income tax on employee compensation and remit the tax to the Ohio Department of Taxation either monthly or quarterly. Individuals may make estimated payments.

Income tax proceeds are to be used to pay General Fund operations of the School District. The proceeds are allocated to the General Fund. Income tax revenue for fiscal year 2014 on the modified accrual basis was \$2,133,647.

Northwestern Local School District  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2014

**NOTE 8 - RECEIVABLES**

Receivables at June 30, 2014, consisted of property taxes, income taxes, accounts (student fees), accrued interest, and intergovernmental grants. All receivables are considered collectible in full due.

A summary of the principal items of intergovernmental receivables follows:

Intergovernmental Receivables:	Amount
General Fund	
Casino Sharing Revenues	\$45,969
Preschool SF6	5,190
Classroom Facilities Fund	
Ohio School Facilities Commission	123,713
Nonmajor Governmental Funds	
Food Service	9,083
Title VI-B	26,559
Title I	33,155
Title IIA	8,029
Total	\$251,698

**NOTE 9 - CAPITAL ASSETS**

Capital asset activity for the fiscal year ended June 30, 2014, was as follows:

	Balance 7/01/13	Increases	Decreases	Balance 6/30/14
<b>Governmental Activities</b>				
<i>Capital Assets, not being depreciated</i>				
Land	\$949,676	\$0	\$0	\$949,676
Construction in Process	43,682,449	7,561,565	(51,244,014)	0
<i>Capital Assets, being depreciated</i>				
Land Improvements	0	6,334,303	0	6,334,303
Buildings and Improvements	10,969,985	41,506,686	(10,491,960)	41,984,711
Furniture and Equipment	2,069,856	3,417,921	(2,031,246)	3,456,531
Vehicles	1,773,238	82,700	(27,124)	1,828,814
Total at Historical Cost	59,445,204	58,903,175	(63,794,344)	54,554,035
Total Accumulated Depreciation	(10,712,601)	(2,274,196)	9,222,485	(3,764,312)
Governmental Activities Capital Assets, Net	\$48,732,603	\$56,628,979	(\$54,571,859)	\$50,789,723



Northwestern Local School District  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2014

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**NOTE 9 - CAPITAL ASSETS** (continued)

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$1,761,169
Support Services:	
Instructional Staff	237,357
Operation and Maintenance of Plant	81,568
Pupil Transportation	101,423
Food Service	61,910
Extracurricular Activities	30,769
Total Depreciation Expense	\$2,274,196

**NOTE 10 - RISK MANAGEMENT**

**A. Property and Liability**

The School District is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2014, the School District contracted with Gallagher Insurance for property, general liability, professional and fleet insurance. Coverage provided by Gallagher is as follows:

Building and Contents-replacement cost (\$1,000 deductible)	-\$350,000,000 Blanket Limit -Refer to Statement of Value for specific limits
Boiler and Machinery (\$3,500 deductible)	100,000,000
Automobile Liability (no deductible)	1,000,000
Professional Liability (\$5,000 deductible)	
Single Occurrence	1,000,000
Aggregate	1,000,000
General Liability (no deductible)	
Per occurrence	1,000,000
Total per year (per member)	3,000,000
Excess Liability/Umbrella (no deductible)	
Per occurrence	5,000,000
Total per year (per member)	5,000,000
Pollution Legal Liability (\$25,000 deductible)	
Per Occurrence	1,000,000
Total Aggregate Limit	10,000,000

Settled claims have not exceeded this commercial coverage in any of the past three years. There have been no significant reductions in insurance coverage from last year.

**NOTE 10 - RISK MANAGEMENT** (continued)

**B. Workers' Compensation**

For fiscal year 2014, the School District participated in the Ohio School Board Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool. The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "equity pooling fund." The "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Comp Management Inc. provides administrative, cost control and actuarial services to the GRP.

**NOTE 11 - DEFINED BENEFIT PENSION PLANS**

**A. School Employees Retirement System**

**Plan Description** – The School District contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer pension plans. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by contacting School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746, or by calling toll free 1-800-878-5853. It is also posted at the SERS' website at [www.ohsers.org](http://www.ohsers.org) under Employer/ Audit Resources.

**NOTE 11 - DEFINED BENEFIT PENSION PLANS** (continued)

**Funding Policy** - Plan members are required to contribute 10 percent of their annual covered salary and the School 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 a statutory maximum amount by the SERS' Retirement Board. The Retirement Board acting with the advice of the actuary, allocates the employer contribution rate among four of the funds (Pension Trust Fund, Death Benefit Fund, Medicare B and Health Care Fund.) of the System.

For the fiscal year ending June 30, 2014, the allocation to pension and death benefits is 13.10 percent. The remaining 0.90 percent of the 14 percent employer contribution rate is allocated to the Health Care and Medicare B Funds. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2014, 2013, and 2012, were \$252,987, \$255,098, and \$322,101, respectively; 83.45 percent has been contributed for fiscal year 2014 and 100 percent for fiscal years 2013 and 2012.

**B. State Teachers Retirement System**

**Plan Description** – The School District contributes to the State Teachers Retirement System of Ohio (STRS Ohio), which is a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report, which may be obtained by writing to STRS Ohio, 275 East Broad Street, Columbus, Ohio 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio website 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. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on a member's lifetime contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member.

**NOTE 11 - DEFINED BENEFIT PENSION PLANS** (continued)

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 DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. Benefits are established by Chapter 3307 of the Ohio Revised Code.

A DB or Combined Plan member with five or more years credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor 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** - For the fiscal year ended June 30, 2014, plan members were required to contribute 11 percent of their annual covered salaries. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2013, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 14 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School District's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2014, 2013, and 2012 were \$883,144, \$871,235, and \$917,548 respectively; 87.80 percent has been contributed for fiscal year 2014 and 100 percent for fiscal years 2013 and 2012. Contributions to the DC and Combined Plans for fiscal year 2014 were \$31,066 made by the School District and \$24,409 made by the plan members.

**NOTE 11 - DEFINED BENEFIT PENSION PLANS** (continued)

**C. Social Security System**

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System of Ohio have an option to choose Social Security or the School Employees Retirement System. As of June 30, 2014, three members of the Board of Education have elected Social Security. The School District's liability is 6.2% of wages paid.

**NOTE 12- POSTEMPLOYMENT BENEFITS**

**A. School Employee Retirement System**

In addition to a cost-sharing multiple-employer defined pension plan the School Employees Retirement System of Ohio (SERS) administers two post-employment benefit plans.

**Medicare Part B**

Medicare B plan reimburses Medicare B premiums paid by eligible retirees and beneficiaries as set forth in Ohio Revised Code (ORC) 3309.69. Qualified benefits recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part premium or the current premium. The Medicare Part B premium for calendar year 2014 was \$99.90 for most participants, but could go as high as \$319.70 per month depending on their income. SERS' reimbursement for retirees was \$45.50.

The Retirement Board, acting with the advice of the actuary, allocates a portion of the current employer contribution rate to the Medicare B Fund, For fiscal 2014, the actuarial required allocation is 0.76 percent the School District's contributions for the years ended June 30, 2014, 2013, and 2012 were \$14,677, \$14,410, and \$19,022, respectively, 83.45 percent has been contributed for fiscal year 2014 and 100 percent for fiscal years 2013 and 2012.

**Health Care Plan**

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

**NOTE 12- POSTEMPLOYMENT BENEFITS** (continued)

The ORC provides the statutory authority to fund SERS' postemployment benefits through employer contributions.

The Health Care Fund was established under, and is administered in accordance with the Internal Revenue Code 105(e). Each year after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer 14 percent contribution to the Health Care Fund. For the year ended June 30, 2014, the health care allocation is 0.14. An additional health care surcharge on employers is collected for employees earning less than the actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statutes provides 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 the fiscal year June 30, 2014, the minimum compensation level was established at \$20,250. The surcharge added to the unallocated portion of the 14 percent employer contribution rate is the total amount assigned to the Health Care Fund. The School District's contributions assigned to health care for the year ended June 30, 2014, 2013 and 2012, was \$36,952, \$37,154, and \$43,600, respectively, 83.45 percent has been contributed for fiscal year 2014 and 100 percent for fiscal years 2013 and 2012.

The SERS Retirement Board establishes the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or their surviving beneficiaries. Premiums vary depending on the plan selected, qualified years, Medicare eligibility, and retirement status.

The financial reports of SERS' Health Care and Medicare B plans are included in its Comprehensive Annual Financial Report. The report can be obtained by contacting SERS, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling toll free (800) 878-5853. It is also posted on the SERS' website [www.ohsers.org](http://www.ohsers.org) under Employers/Audit Resources.

**NOTE 12- POSTEMPLOYMENT BENEFITS** (continued)

**B. State Teachers Retirement System**

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

Funding Policy – Ohio law 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 Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2014, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The School District's contributions for health care for the fiscal years ended June 30, 2014, 2013, and 2012 were \$67,934, \$67,018, and \$70,581, respectively; 87.80 percent has been contributed for fiscal year 2014 and 100 percent for fiscal years 2013 and 2012.

**NOTE 13 - EMPLOYEE BENEFITS**

**A. Compensated Absences**

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

Teachers and administrators earn sick leave at the rate of one and one-fourth days per month. Classified employees earn 4.6 hours for 80 hours worked. Sick leave may be accumulated up to a maximum of 255 days for classified and certified personnel. Upon retirement, payment is made for 25 percent for teachers and 25 percent for other employees of accrued, but unused sick leave credit to a maximum of 55 days for certified employees.

**NOTE 13 - EMPLOYEE BENEFITS** (continued)

**B. Insurance Benefits**

The School District provides life insurance through Sun Life and accidental death and dismemberment insurance through Anthem to most employees. Medical/surgical benefits are provided through Anthem, dental insurance through Core Source, and vision insurances through Vision Service Plan.

**NOTE 14 - CAPITAL LEASES - LESSEE DISCLOSURE**

The School District has entered into a capitalized lease for an addition to the Elementary School.

The lease meets the criteria of a capital lease as one which transfers benefits and risks of ownership to the lessee. Capital lease payments have been reclassified and are reflected as debt service expenditures in the basic financial statements. These expenditures are reported as function expenditures on a budgetary basis.

Capital assets have been capitalized on the statement of net position in the amount \$1,510,000 and a corresponding liability was recorded. This amount represents the present value of the minimum lease payments at the time of acquisition. The final principal payment was made in fiscal year 2014 totaled \$95,000.



Northwestern Local School District  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2014

**NOTE 15 - LONG-TERM LIABILITIES**

The changes in the School District's long-term obligations (non-current liabilities) during fiscal year 2014 were as follows:

	<u>Amount Outstanding 6/30/2013</u>	<u>Additions</u>	<u>Deductions</u>	<u>Amount Outstanding 6/30/2014</u>	<u>Amounts Due in One Year</u>
Governmental Activities					
Qualified School Const Bonds	\$16,385,000	\$0	\$0	\$16,385,000	\$0
Build American Bonds	12,540,000	0	300,000	12,240,000	250,000
Premium on Bonds	363,954	0	18,557	345,397	0
Capital Leases	95,000	0	95,000	0	0
Compensated Absences	<u>778,459</u>	<u>286,779</u>	<u>253,495</u>	<u>811,743</u>	<u>152,093</u>
Total	<u>\$30,162,413</u>	<u>\$286,779</u>	<u>\$667,052</u>	<u>\$29,782,140</u>	<u>\$402,093</u>

Compensated absences will be paid from the fund from which the employees' salaries are paid.

The School District's overall legal debt margin was \$22,631,796 with an unvoted debt margin of \$226,767 and an energy conservation debt margin of \$2,040,901 at June 30, 2014.

In November, 2009, voters in the School District approved the issuance of bond for the construction of two new school buildings to replace the three buildings currently in use.

On May 26, 2010, the School District sold Qualified School Construction Bonds in the amount of \$15,000,000. The entire principal is due December 1, 2026. The bonds were sold at a taxable rate of 5.82%. The United States Treasury will issue checks to the school district to pay 5.50% interest. The net interest cost to the district will be 0.32%. The amortization schedule with net interest and the sinking fund payment is as follows:

Northwestern Local School District  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2014

**NOTE 15 - LONG-TERM LIABILITIES** (continued)

Fiscal Year Ending June 30,	Qualified School Construction Bonds - Building		
	Principal*	Interest	Total
2015	\$0	\$48,000	\$48,000
2016	0	48,000	48,000
2017	0	48,000	48,000
2018	0	48,000	48,000
2019	0	48,000	48,000
2020-2024	0	240,000	240,000
2025-2027	15,000,000	144,000	15,144,000
Totals	\$15,000,000	\$624,000	\$15,624,000

\*The School District is making mandatory sinking fund payments that are kept with the trustee to make the December 1, 2026 principal payment.

On November 23, 2010, the School District sold Build America Bonds in the amount of \$13,240,000. The final principal payment is due December 1, 2038. The bonds were sold at an average net interest rate of 4.21%. The United States Treasury will issue checks to the School District to pay 35% of interest costs. The amortization schedule with net interest and the principal fund payment is as follows:

Fiscal Year Ending June 30,	Build America Bonds		
	Principal	Interest	Total
2015	\$250,000	\$504,571	\$754,571
2016	250,000	501,321	751,321
2017	250,000	497,502	747,502
2018	200,000	490,189	690,189
2019	200,000	484,339	684,339
2020-2024	945,000	2,327,256	3,272,256
2025-2029	1,405,000	2,171,719	3,576,719
2030-2034	3,845,000	1,622,384	5,467,384
2035-2039	4,895,000	667,855	5,562,855
Totals	\$12,240,000	\$9,267,136	\$21,507,136

Northwestern Local School District  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2014

**NOTE 15 - LONG-TERM LIABILITIES** (continued)

On March 31, 2011, the School District sold Qualified School Construction Bonds for a HB 264 Energy Conservation Project in the amount of \$1,385,000. The entire principal is due December 1, 2025. The bonds were sold at a taxable rate of 5.80%. The United States Treasury will issue checks to the School District to pay 5.30% interest. The net interest cost to the School District will be 0.50%. The amortization schedule with net interest and the sinking fund payment is as follows:

Fiscal Year Ending June 30,	Qualified School Construction Bonds – HB 264		
	Principal*	Interest	Total
2015	\$0	\$6,925	\$6,925
2016	0	6,925	6,925
2017	0	6,925	6,925
2018	0	6,925	6,925
2019	0	6,925	6,925
2020-2024	0	34,625	34,625
2025-2026	1,385,000	13,850	1,398,850
Totals	\$1,385,000	\$83,100	\$1,468,100

\*The School District is making mandatory sinking fund payments that are kept with the trustee to make the December 1, 2025 principal payment.

**NOTE 16 - JOINTLY GOVERNED ORGANIZATIONS AND INSURANCE PURCHASING POOL**

**A. Jointly Governed Organizations**

*Miami Valley Educational Computer Association* - The School District is a participant in the Miami Valley Educational Computer System (MVECA) which is a computer consortium. MVECA is an association of public schools within the boundaries of Clark, Clinton, Fayette, Greene, and Highland Counties and Cities of Springfield, Wilmington, Washington Court House, Xenia, and Hillsboro. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member districts.

**NOTE 16 - JOINTLY GOVERNED ORGANIZATIONS AND INSURANCE**  
**PURCHASING POOL** (continued)

The governing board of MVECA consists of three Superintendents and three Treasurers of member school districts, with three of the four Superintendents and all three Treasurers elected by a majority vote of all member school districts except the Greene County Career Center. The fourth Superintendent is from the Greene County Career Center. The School District paid MVECA \$124,452 for services provided during the year.

Financial information can be obtained from Thor Sage, who serves as Executive Director, at 330 East Enon Road, Yellow Springs, Ohio 45387.

*Southwestern Ohio Educational Purchasing Council* -The Southwestern Ohio Educational Purchasing Council (SOEPC) is a purchasing cooperative made up of nearly 126 school districts in 18 counties. The purpose of the cooperative is to obtain prices for quality merchandise and services commonly used by schools. All member districts are obligated to pay all fees, charges, or other assessments as established by the SOEPC.

One year prior notice is necessary for withdrawal from the group. During this time, the withdrawing member is liable for all member obligations. Payments to SOEPC are made from the General Fund. During the fiscal year, the School District paid \$76,403 for its medical, dental and vision insurances through the SOEPC. To obtain financial information, write to the Southwestern Ohio Educational Purchasing Cooperative, Ken Swink, who serves as Director, at 303 Corporate Center Dr., Vandalia, Ohio 45373.

*Southwestern Ohio Instructional Technology Association* - The Southwestern Ohio Instructional Technology Association (SOITA) is a not-for-profit corporation formed under Section 1702.01 of the Ohio Revised Code. The purpose of the corporation is to serve the educational needs of the area through television programming for the advancement of educational programs.

The Board of Trustees is comprised of twenty-one representatives of SOITA member schools or institutions. The qualified members within the counties, i.e. Auglaize, Butler, Champaign, Clark, Clinton, Darke, Fayette, Greene, Hamilton, Logan, Mercer, Miami, Montgomery, Preble, Shelby, and Warren. Montgomery, Greene and Butler Counties elect two representatives per area. One at-large non-public representative is elected by the non-public school SOITA members as the state-assigned SOITA service area representative. One at-large higher education representative is elected by higher education SOITA members from within state-assigned SOITA service area.

**NOTE 16 - JOINTLY GOVERNED ORGANIZATIONS AND INSURANCE  
PURCHASING POOL** (continued)

All member districts are obligated to pay all fees, charges, or other assessments as established by the SOITA. Upon dissolution, the net position shall be distributed to the federal government, or to a state or local government, for a public purpose. Payments to SOITA are made from the General Fund. During the fiscal year, the School District made no payments to SOITA. To obtain financial information, write to the Southwestern Ohio Instructional Technology Association, Larry Pogue, who serves as Director, at 150 East Sixth Street, Franklin, Ohio 45005.

*Clark County Family and Children First Council* – The Clark County Family and Children First Council (the Council) is a voluntary association established with the purpose to coordinate and integrate those services within Clark County which are available for families and children and to establish a comprehensive, coordinated, multi-disciplinary, interagency system for the delivery of such services in order to more effectively meet the needs of families and children.

The Board of Trustees is comprised of eighteen representatives of each of the members of the Council, including the Superintendent of the Clark County Educational Service Center, who was appointed by the Superintendents of the Clark County schools. All members are obligated to pay all dues as established by the Council to aid the financing of the operations and programs of the Council. The Northwestern Local School District does not pay any dues since the Clark County Educational Service Center represents the District. Any member withdrawing from the Council must give one hundred eighty days written notice to the Council after formal action of the member's governing board. To obtain financial information, write to the Clark County Family and Children First Council, Marilyn Demma, who serves as Treasurer, at 1345 Lagonda Avenue, Springfield, Ohio 45502.

**NOTE 16 - JOINTLY GOVERNED ORGANIZATIONS AND INSURANCE PURCHASING POOL** (continued)

**B. Insurance Purchasing Pool**

The School District participates in the Ohio School Boards Association (OSBA) Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool. The GRP's business and affairs are conducted by a three member Board of directors consisting of the President, the President-Elect and the Immediate Past President of the OSBA. The Executive Director of the OSBA, or his designee, serves as coordinator of the program. Each year, the participating school districts pay an enrollment fee to the GRP to cover the costs of administering the plan. The School District paid \$945 during 2014 to participate in the pool.

**NOTE 17 - CONTINGENCIES**

**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, 2014, if applicable, cannot be determined at this time.

**NOTE 18 - SET-ASIDE CALCULATIONS AND FUND RESERVES**

The School District is required by State statute to annually set aside in the general fund an amount based on a statutory formula for the acquisition and construction of capital improvements. Amounts not spent by year-end or offset by similarly restricted resources received during the year must be held in cash at year-end and carried forward to be used for the same purposes in future years. The School District is also required to set aside money for budget stabilization to the extent of Workers' Compensation refunds.

Northwestern Local School District  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2014

**NOTE 18 - SET-ASIDE CALCULATIONS AND FUND RESERVES** (continued)

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

	<u>Capital Acquisition</u>	<u>Budget Stabilization</u>
Set-aside Cash Balance as of June 30, 2013	(\$1,425,740)	\$39,318
Current Year Set-aside Requirement	293,976	0
Current Year Offsets	(1,487,748)	0
Qualifying Disbursements	<u>(384,957)</u>	<u>0</u>
Totals	<u>(3,004,469)</u>	<u>\$39,318</u>
Balance Carried Forward to Fiscal Year 2015	<u>(\$1,487,748)</u>	<u>0</u>
Restricted Cash as of June 30, 2014	<u>\$0</u>	<u>\$39,318</u>

During fiscal year 2014, the School District utilized the tax receipts recorded in the Debt Service and Permanent Improvement funds as an offset to the capital spending requirement. These tax receipts are used to repay the debt issued to finance school construction projects, and may be carried forward to offset future year's capital acquisition set-aside requirement.

**NOTE 19 – CONTRACTUAL COMMITMENTS**

The School District had major outstanding contracts related to school construction. The following estimated amounts remain on these contracts as of June 30:

Heyne Construction, Inc.	Softball Field/Dugouts	\$247,000
SHP, Inc.	Architectural Service	67,325
Evans Landscaping	Parking Lots/Athletics	828,126
Milcon Concrete, Inc.	Roadway Improvements	270,429
Monarch Construction Co.	General Improvements	1,054,208
Feldkamp Enterprises, Inc.	HVAC	133,744
Johnson Controls, Inc.	HVAC Controls	214,175
Chapel Electric Co. LLC	Electrical	551,054
Rieck Services	HVAC	104,645

Northwestern Local School District  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2014

**NOTE 20 - FUND BALANCE ALLOCATION**

The School District has chosen to present to the consolidated summary of fund balance classification on the financial statements. The detail of those fund balance classifications are outlined below:

Fund Balances:	General	Bond Retirement	Classroom Facilities	Non-Major Funds
Nonspendable:				
Inventory	\$47,046	\$0	\$0	\$4,728
Prepays	2,915	0	0	0
Restricted for:				
Debt Service	0	2,222,788	0	277,827
Capital Improvements	0	0	1,974,749	1,530,772
Endowments	0	0	0	5,362
Food Service	0	0	0	129,738
District Activities	0	0	0	45,631
Statutory Reserves	39,318	0	0	0
Committed for:				
Latchkey Programs	0	0	0	92,414
Assigned to:				
Insurance Reserve	71,775	0	0	0
Public School Support	79,182	0	0	0
Encumbrances	10,966	0	0	0
Unassigned	4,883,109	0	0	(32,100)
<b>Total Fund Balances</b>	<b>\$5,134,311</b>	<b>\$2,222,788</b>	<b>\$1,974,749</b>	<b>\$2,053,922</b>

**NOTE 21 – INTERFUND TRANSACTIONS**

	Interfund Receivable	Interfund Payable
General Fund	\$17,240	\$0
Non-Major Special Revenue	0	17,240
<b>Total All Funds</b>	<b>\$17,240</b>	<b>\$17,240</b>

The interfund payables from the General Fund to the nonmajor funds relate to short term advances to the IDEA special revenue fund that will be repaid in the following year when those reimbursements are received.

The General fund transferred \$660,721 to finance various programs accounted for in other funds in accordance with budgetary authorization.



Northwestern Local School District  
Schedule of Expenditures of Federal Awards  
For the Fiscal Year Ended June 30, 2014

<u>Federal Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Grant Year</u>	<u>Award Receipts</u>	<u>Award Disbursements</u>
<u>U.S. DEPARTMENT OF AGRICULTURE</u>				
<i>Passed Through Ohio Department of Education</i>				
<i>Child Nutrition Cluster:</i>				
School Breakfast Program	10.553	2014	\$ 255,977	\$ 255,977
National School Lunch Program	10.555	2014	<u>40,542</u>	<u>40,542</u>
Total Child Nutrition Cluster			<u>296,519</u>	<u>296,519</u>
Total U.S. Department of Agriculture			<u>296,519</u>	<u>296,519</u>
<u>U.S. DEPARTMENT OF EDUCATION</u>				
<i>Passed Through Ohio Department of Education</i>				
Race to the Top Grant - ARRA	84.395	2014	350	350
Title I, Part A Grants to Local Education Agencies	84.010	2013	41,622	41,036
		2014	<u>255,728</u>	<u>251,442</u>
Total Title I, Part A Grants to Local Education Agencies			297,350	292,478
Special Education Cluster:				
Special Education Grants to States	84.027	2013	21,475	21,475
		2014	<u>321,037</u>	<u>338,273</u>
Total Special Education Grants to States			342,512	359,748
Special Education Preschool Grants to States	84.173	2014	<u>10,154</u>	<u>10,154</u>
Total Special Education Cluster			352,666	369,902
Improving Teacher Quality State Grants	84.367	2013	7,184	7,425
		2014	<u>46,118</u>	<u>45,918</u>
Total Improving Teacher Quality State Grants			<u>53,302</u>	<u>53,343</u>
Total U.S. Department of Education			<u>703,668</u>	<u>716,073</u>
<b>TOTAL FEDERAL AWARD EXPENDITURES</b>			<b><u>\$ 1,000,187</u></b>	<b><u>\$ 1,012,592</u></b>

See accompanying notes to the Schedule of Expenditures of Federal Awards

Northwestern Local School District  
Notes to the Schedule of Expenditures of Federal Awards  
For the Year Ended June 30, 2014

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**NOTE A – SIGNIFICANT ACCOUNTING POLICIES**

The accompanying Schedule of Expenditures of Federal Awards summarizes the activity of the School District's federal award programs. The Schedule has been prepared on the cash basis of accounting.

**NOTE B – U.S. DEPARTMENT OF AGRICULTURE PROGRAMS**

Cash receipts from the U.S. Department of Agriculture are commingled with State and Local funds. It is assumed federal monies are expended first.

**NOTE C – MATCHING REQUIREMENTS**

Certain federal programs require the School District to contribute non-federal funds (matching funds) to support federally-funded programs. The District has complied with the matching requirements. The expenditure of non-federal (matching) funds is not included on the Schedule of Expenditures of Federal Awards.

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

Board of Education  
Northwestern Local School District  
5610 Troy Road  
Springfield, Ohio 45502

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Northwestern Local School District (the District), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated January 30, 2015.

**Internal Control Over Financial Reporting**

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified a deficiency in internal control that we consider to be a material weakness.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2014-001 to be a material weakness.

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**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**District Response to Finding**

The District's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

**Purpose of this Report**

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

*Clark, Schaefer, Hackett & Co.*

Springfield, Ohio  
January 30, 2015

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH  
MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL  
OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

Board of Education  
Northwestern Local School District  
5610 Troy Road  
Springfield, Ohio 45502

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

We have audited the Northwestern Local School District's (the District) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2014. The District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

**Management's Responsibility**

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

**Auditors' Responsibility**

Our responsibility is to express an opinion on compliance for each of the District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on 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 that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the District's compliance.

**Opinion on Each Major Federal Program**

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

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

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion 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, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. 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 type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. 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.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

*Clark, Schaefer, Hackett & Co.*

Springfield, Ohio  
January 30, 2015

**Northwestern Local School District  
Schedule of Findings and Questioned Costs  
Fiscal Year Ended June 30, 2014**

**Section I – Summary of Auditors’ Results**

Financial Statements

Type of auditors’ report issued:	Unmodified
Internal control over financial reporting:	
• Material weakness(es) identified?	Yes
• Significant deficiency(ies) identified not considered to be material weakness(es)?	None noted
Noncompliance material to financial statements noted?	None noted

Federal Awards

Internal control over major programs:	
• Material weakness(es) identified?	None noted
• Significant deficiency(ies) identified not considered to be material weakness(es)?	None noted
Type of auditors’ report issued on compliance for major programs:	Unmodified
Any audit findings that are required to be reported in accordance with 510(a) of Circular A-133?	None noted
Identification of major programs:	
Child Nutrition Cluster:	
School Breakfast Program – CFDA 10.553	
National School Lunch Program – CFDA 10.555	
Dollar threshold to distinguish between Type A and Type B programs:	\$300,000
Auditee qualified as low-risk auditee?	Yes

## Section II – Financial Statement Findings

### 2014-001: Audit Adjustment

Condition: An audit adjustment was necessary to correct the value of the District's capital assets reported in the District's Statement of Net Position.

Criteria: GASB Codification Section 1400 requires capital assets to be reported at historical cost, which includes ancillary charges necessary to place the asset into its intended location and condition for use.

Effect: Recognizing capital assets in the financial statements at values other than historical cost could result in the financial statements containing material misstatements in comparison to what is required by accounting principles generally accepted in the United States of America.

Cause: For the past several years, the District has been involved with a significant construction project to replace previous school buildings with two new buildings. During fiscal year 2014, the buildings were completed and occupied. The District hired an outside appraisal firm to conduct a complete inventory of all capital assets, including the new buildings and contents within. The values from the inventory listing produced by the outside appraisal firm were then used to prepare the District's annual financial statements. However, the actual expenditure information maintained with the District's accounting system was significantly higher than the values assigned by the outside appraisal firm.

Recommendation: The District should adjust the values placed on the new school buildings by the outside appraisal firm to properly reflect historical cost within the capital asset system used in the preparation of the annual financial statements.

*District's Response: The District posted the audit adjustment to the current year's financial statements and the capital asset records will be updated as recommended.*

## Section III – Federal Awards Findings and Questioned Costs

None noted



**No Findings Reported in Prior Audit**



At Clark Schaefer Hackett, we are the sum of our individuals. Each team member's training, experience and drive is well-suited to each client's needs and goals. We are committed to providing insightful and flexible service – from efficient compliance to sophisticated consulting – to help each client prosper today and plan for future success.



# Dave Yost • Auditor of State

**NORTHWESTERN LOCAL SCHOOL DISTRICT**

**CLARK 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  
MAY 12, 2015**