

Northwestern Local School District Clark County, Ohio

Basic Financial Statements
Fiscal Year Ended June 30, 2017
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, 2016 through June 30, 2017. 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

February 2, 2018

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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, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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.

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, 2017, 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 the management's discussion and analysis (pages 3 through 15) and schedules of net pension liabilities and pension contributions and related notes (pages 62 through 68) 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, as required by Title 2 *U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The schedule of expenditures of federal awards 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 of expenditures of federal awards 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 December 21, 2017 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 solely 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 the effectiveness of the District's 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 District's internal control over financial reporting and compliance.

Clark, Schaefer, Hackett & Co.

Springfield, Ohio
December 21, 2017

**NORTHWESTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(UNAUDITED)**

The management's discussion and analysis of the Northwestern Local School District's (the "District") financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2017. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the transmittal letter, notes to the basic financial statements and basic financial statements to enhance their understanding of the District's financial performance.

Financial Highlights

Key financial highlights for fiscal year 2017 are as follows:

- In total, net position of governmental activities decreased \$1,127,388 which represents a 8.62% decrease from fiscal year 2016.
- General revenues accounted for \$17,847,799 in revenue or 82.34% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$3,828,035 or 17.66% of total revenues of \$21,675,834.
- The District had \$22,803,222 in expenses related to governmental activities; only \$3,828,035 of these expenses were offset by program specific charges for services and grants or contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$17,847,799 were not adequate to provide for these programs.
- The District's major funds are the general fund and the bond retirement fund. The general fund had \$17,287,516 in revenues and other financing sources and \$17,066,767 in expenditures and other financing uses. During fiscal year 2017, the general fund's fund balance increased \$220,749 from a balance of \$6,865,971 to a balance of \$7,086,720.
- The bond retirement fund had \$2,490,883 in revenues and \$2,010,036 in expenditures. During fiscal year 2017, the bond retirement fund's fund balance increased \$480,847 from a balance of \$5,029,178 to a balance of \$5,510,025.

Using these Basic Financial Statements

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

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

**NORTHWESTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(UNAUDITED)**

Reporting the District as a Whole

Statement of Net Position and the Statement of Activities

While this document contains the large number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2017?" The statement of net position and the statement of activities answer this question. These statements include all assets, deferred outflows, liabilities, deferred inflows, revenues and expenses using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

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

The District's statement of net position and statement of activities can be found on pages 17-18 of this report.

Reporting the District's Most Significant Fund

Fund Financial Statements

The analysis of the District's major governmental funds begins on page 12. Fund financial reports provide detailed information about the District's major funds. The District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the District's most significant funds. The District's major funds are the general fund and the bond retirement fund.

Governmental Funds

Most of the District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund financial statements provide a detailed short-term view of the District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental activities (reported in the statement of net position and the statement of activities) and governmental funds is reconciled in the basic financial statements. The basic governmental fund financial statements can be found on pages 19-23 of this report.

Reporting the District's Fiduciary Responsibilities

The District acts in a trustee capacity as an agent for individuals or other entities. These activities are reported in agency funds. The District's fiduciary activities are reported in a separate statement of assets and liabilities on page 24. These activities are excluded from the District's other financial statements because the assets cannot be utilized by the District to finance its operations.

**NORTHWESTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(UNAUDITED)**

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 25-60 of this report.

Required Supplementary Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the District's net pension liability. The required supplementary information can be found on pages 62 through 68 of this report.

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**NORTHWESTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(UNAUDITED)**

The District as a Whole

The statement of net position provides the perspective of the District as a whole.

The table below provides a summary of the District's net position at June 30, 2017 and June 30, 2016.

	Net Position	
	Governmental Activities <u>2017</u>	Governmental Activities <u>2016</u>
<u>Assets</u>		
Current and other assets	\$ 24,702,352	\$ 23,629,194
Capital assets, net	<u>46,355,202</u>	<u>47,737,488</u>
Total assets	<u>71,057,554</u>	<u>71,366,682</u>
<u>Deferred outflows</u>		
Pension	<u>5,411,701</u>	<u>2,164,185</u>
Total deferred outflows	<u>5,411,701</u>	<u>2,164,185</u>
<u>Liabilities</u>		
Current liabilities	1,922,579	1,809,643
Long-term liabilities:		
Due within one year	284,059	323,108
Due in more than one year		
Net pension liability	27,172,056	21,598,809
Other amounts	<u>28,733,606</u>	<u>28,906,482</u>
Total liabilities	<u>58,112,300</u>	<u>52,638,042</u>
<u>Deferred inflows</u>		
Property taxes levied for the next fiscal year	6,226,594	6,128,729
Pension	<u>174,670</u>	<u>1,681,017</u>
Total deferred inflows	<u>6,401,264</u>	<u>7,809,746</u>
<u>Net Position</u>		
Net investment in capital assets	18,190,476	19,301,134
Restricted	8,827,628	8,177,692
Unrestricted (deficit)	<u>(15,062,413)</u>	<u>(14,395,747)</u>
Total net position	<u>\$ 11,955,691</u>	<u>\$ 13,083,079</u>

**NORTHWESTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(UNAUDITED)

The District has adopted GASB Statement 68, "Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement 27," and GASB Statement 71 "Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68," which significantly revises accounting for pension costs and liabilities. For reasons discussed below, many end users of this financial statement will gain a clearer understanding of the District's actual financial condition by adding deferred inflows related to pension and the net pension liability to the reported net position and subtracting deferred outflows related to pension.

Governmental Accounting Standards Board standards are national and apply to all government financial reports prepared in accordance with generally accepted accounting principles. When accounting for pension costs, GASB 27 focused on a funding approach. This approach limited pension costs to contributions annually required by law, which may or may not be sufficient to fully fund each plan's *net pension liability*. GASB 68 takes an earnings approach to pension accounting; however, the nature of Ohio's statewide pension systems and state law governing those systems requires additional explanation in order to properly understand the information presented in these statements.

As required by GASB 68, the net pension liability equals the District's proportionate share of each plan's collective:

1. Present value of estimated future pension benefits attributable to active and inactive employees' past service
2. Minus plan assets available to pay these benefits

GASB notes that pension obligations, whether funded or unfunded, are part of the "employment exchange" – that is, the employee is trading his or her labor in exchange for wages, benefits, and the promise of a future pension. GASB noted that the unfunded portion of this pension promise is a present obligation of the government, part of a bargained-for benefit to the employee, and should accordingly be reported by the government as a liability since they received the benefit of the exchange. However, the District is not responsible for certain key factors affecting the balance of this liability. In Ohio, the employee shares the obligation of funding pension benefits with the employer. Both employer and employee contribution rates are capped by State statute. A change in these caps requires action of both Houses of the General Assembly and approval of the Governor. Benefit provisions are also determined by State statute. The employee enters the employment exchange with the knowledge that the employer's promise is limited not by contract but by law. The employer enters the exchange also knowing that there is a specific, legal limit to its contribution to the pension system. In Ohio, there is no legal means to enforce the unfunded liability of the pension system *as against the public employer*. State law operates to mitigate/lessen the moral obligation of the public employer to the employee, because all parties enter the employment exchange with notice as to the law. The pension system is responsible for the administration of the plan.

Most long-term liabilities have set repayment schedules or, in the case of compensated absences (i.e. sick and vacation leave), are satisfied through paid time-off or termination payments. There is no repayment schedule for the net pension liability. As explained above, changes in pension benefits, contribution rates, and return on investments affect the balance of the net pension liability, but are outside the control of the local government. In the event that contributions, investment returns, and other changes are insufficient to keep up with required pension payments, State statute does not assign/identify the responsible party for the unfunded portion. Due to the unique nature of how the net pension liability is satisfied, this liability is separately identified within the long-term liability section of the statement of net position.

In accordance with GASB 68, the District's statements prepared on an accrual basis of accounting include an annual pension expense for their proportionate share of each plan's *change* in net pension liability not accounted for as deferred inflows/outflows.

**NORTHWESTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY, OHIO**

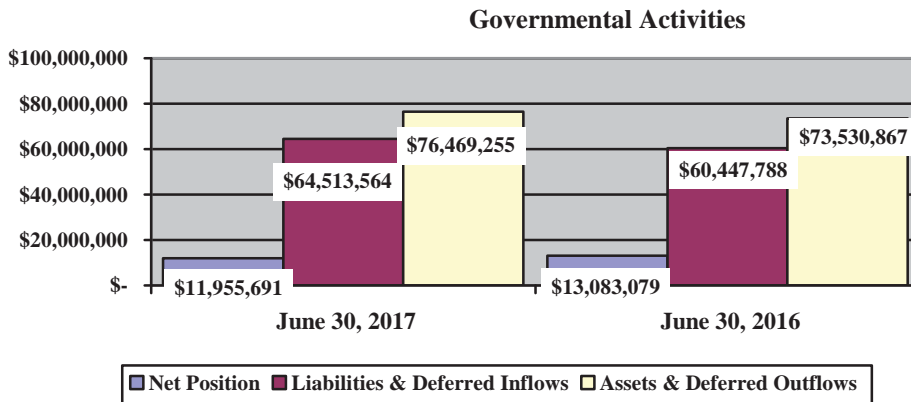
**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(UNAUDITED)**

Over time, net position can serve as a useful indicator of government's financial position. At June 30, 2017, the District's assets and deferred outflows exceeded liabilities and deferred inflows by \$11,955,691. Of this total, \$8,827,628 is restricted in use.

At year end, capital assets represented 65.24% of total assets. Capital assets include land, land improvements, buildings and improvements, furniture and equipment and vehicles. Net investments in capital assets at June 30, 2017, were \$18,190,476. These capital assets are used to provide services to the students and are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the District's net position, \$8,827,628, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net position is a deficit of \$15,062,413.

The graph below shows the District's assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position at June 30, 2017 and June 30, 2016.



**NORTHWESTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(UNAUDITED)

The table below shows the change in net position for fiscal year 2017 and 2016.

Change in Net Position

	<u>Governmental Activities</u>	
	<u>2017</u>	<u>2016</u>
<u>Revenues</u>		
Program revenues:		
Charges for services and sales	\$ 1,988,748	\$ 1,980,419
Operating grants and contributions	1,839,287	1,715,460
General revenues:		
Property taxes	6,756,588	7,345,061
School district income taxes	2,248,204	2,190,157
Grants and entitlements	8,730,911	8,649,959
Investment earnings	75,102	491,448
Miscellaneous	36,994	176,388
Total revenues	<u>21,675,834</u>	<u>22,548,892</u>
<u>Expenses</u>		
Program expenses:		
Instruction:		
Regular	10,048,700	8,618,733
Special	3,122,426	2,642,214
Other	3,391	8,117
Support services:		
Pupil	1,000,163	1,027,364
Instructional staff	1,049,715	972,937
Board of education	71,128	74,731
Administration	1,136,292	1,128,237
Fiscal	721,571	549,164
Operations and maintenance	1,688,384	1,526,258
Pupil transportation	1,193,734	1,075,206
Central	-	215
Operation of non-instructional services:		
Other non-instructional services	47,383	38,346
Food service operations	573,644	616,767
Extracurricular activities	452,206	565,878
Interest and fiscal charges	<u>1,694,485</u>	<u>1,714,602</u>
Total expenses	<u>22,803,222</u>	<u>20,558,769</u>
Changes in net position	(1,127,388)	1,990,123
Net position at beginning of year	<u>13,083,079</u>	<u>11,092,956</u>
Net position at end of year	<u>\$ 11,955,691</u>	<u>\$ 13,083,079</u>

**NORTHWESTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(UNAUDITED)**

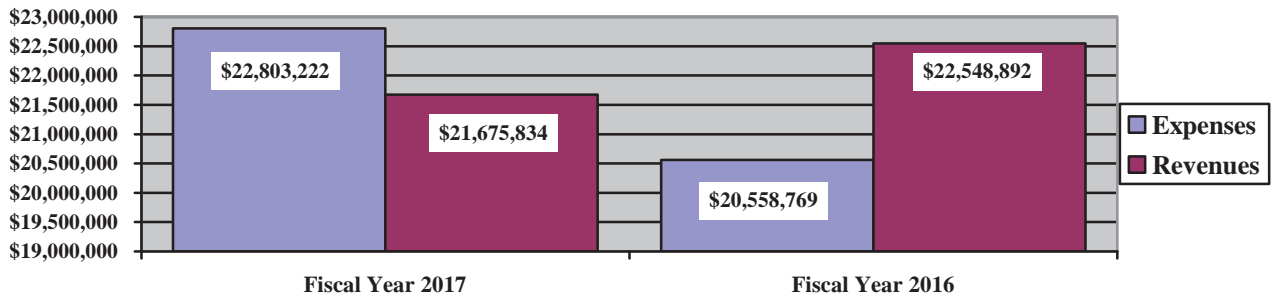
Governmental Activities

Net position of the District's governmental activities decreased \$1,127,388. Total governmental expenses of \$22,803,222 were partially offset by program revenues of \$3,828,035 and general revenues of \$17,847,799. Program revenues supported 16.79% of the total governmental expenses.

The primary sources of revenue for governmental activities are derived from property taxes, income taxes and grants and entitlements not restricted to specific programs. These revenue sources represent 81.82% of total governmental revenue. Real estate property is reappraised every six years.

The graph below presents the District's governmental activities revenue and expenses for fiscal year 2017 and 2016.

Governmental Activities - Revenues and Expenses



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

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**NORTHWESTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(UNAUDITED)

Governmental Activities

	Total Cost of Services <u>2017</u>	Net Cost of Services <u>2017</u>	Total Cost of Services <u>2016</u>	Net Cost of Services <u>2016</u>
Program expenses:				
Instruction:				
Regular	\$ 10,048,700	\$ 8,570,996	\$ 8,618,733	\$ 7,132,962
Special	3,122,426	1,764,549	2,642,214	1,452,886
Vocational	-	-	-	(18,511)
Other	3,391	3,391	8,117	8,117
Support services:				
Pupil	1,000,163	939,029	1,027,364	954,859
Instructional staff	1,049,715	924,118	972,937	878,984
Board of Education	71,128	71,128	74,731	74,731
Administration	1,136,292	1,134,928	1,128,237	1,123,331
Fiscal	721,571	721,571	549,164	549,164
Operations and maintenance	1,688,384	1,687,879	1,526,258	1,526,083
Pupil transportation	1,193,734	1,153,155	1,075,206	1,029,562
Central	-	-	215	215
Operation of non-instructional services:				
Other non-instructional services	47,383	(11,324)	38,346	(10,843)
Food service operations	573,644	(9,051)	616,767	44,816
Extracurricular activities	452,206	330,333	565,878	401,932
Interest and fiscal charges	<u>1,694,485</u>	<u>1,694,485</u>	<u>1,714,602</u>	<u>1,714,602</u>
Total expenses	<u>\$ 22,803,222</u>	<u>\$ 18,975,187</u>	<u>\$ 20,558,769</u>	<u>\$ 16,862,890</u>

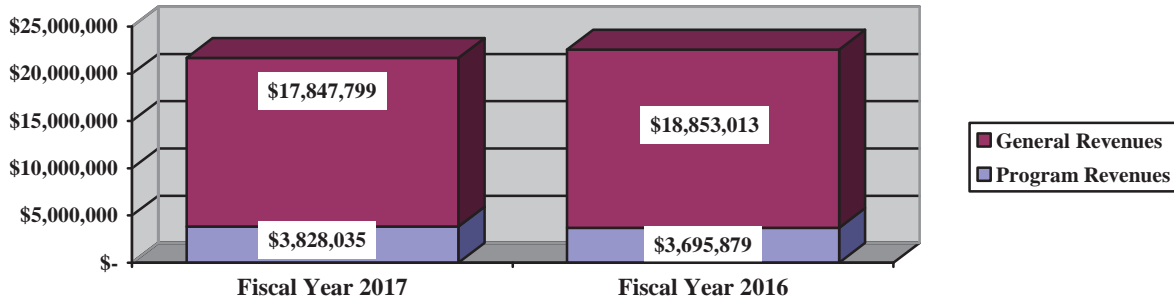
The dependence upon tax and other general revenues for governmental activities is apparent, 78.48% of instruction activities in fiscal year 2017 are supported through taxes and other general revenues as for all governmental activities, general revenue support is 83.21%. The District's taxpayers, and grants and entitlements from the State of Ohio, as a whole, are by far the primary support for the District's students.

**NORTHWESTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(UNAUDITED)

The graph below presents the District's governmental activities revenue for fiscal year 2017 and 2016.

Governmental Activities - General and Program Revenues



The District's Funds

The District's governmental funds reported a combined fund balance of \$15,959,234 which is higher than last year's total of \$15,073,631. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2017 and 2016.

	Fund Balance <u>June 30, 2017</u>	Fund Balance <u>June 30, 2016</u>	<u>Change</u>
General	\$ 7,086,720	\$ 6,865,971	\$ 220,749
Bond retirement	5,510,025	5,029,178	480,847
Other governmental	<u>3,362,489</u>	<u>3,178,482</u>	<u>184,007</u>
Total	<u>\$ 15,959,234</u>	<u>\$ 15,073,631</u>	<u>\$ 885,603</u>

General Fund

The District's general fund balance increased \$220,749. Tax revenues decreased slightly due to a decrease in the amount available for advance from the County Auditor. Earnings on investments decreased due to a decrease in the amount of investments that matured during the current fiscal year. Intergovernmental revenues increased due to an increase in the amount of school foundation revenues received. Expenditures related to instruction and support services expenses increased during the year due to a slight increase in personnel costs. Facilities acquisition and construction expenditures decreased due to a decrease in construction projects throughout the District.

**NORTHWESTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(UNAUDITED)

The table that follows assists in illustrating the financial activities and fund balance of the general fund.

	<u>2017</u> Amount	<u>2016</u> Amount	<u>Percentage</u> Change
<u>Revenues</u>			
Taxes	\$ 7,462,989	\$ 7,806,598	(4.40) %
Earnings on investments	54,825	111,789	(50.96) %
Intergovernmental	8,181,270	8,115,926	0.81 %
Other revenues	<u>1,584,082</u>	<u>1,540,933</u>	2.80 %
Total	<u>\$ 17,283,166</u>	<u>\$ 17,575,246</u>	(1.66) %
<u>Expenditures</u>			
Instruction	\$ 10,495,290	\$ 9,951,831	5.46 %
Support services	5,731,131	5,794,225	(1.09) %
Extracurricular activities	380,296	428,653	(11.28) %
Operation of non-instructional services	-	182	(100.00) %
Facilities acquisition and construction	<u>-</u>	<u>32,240</u>	(100.00) %
Total	<u>\$ 16,606,717</u>	<u>\$ 16,207,131</u>	2.47 %

Bond Retirement Fund

The bond retirement fund had \$2,490,883 in revenues and \$2,010,036 in expenditures. During fiscal year 2017, the bond retirement fund's fund balance increased \$480,847 from a balance of \$5,029,178 to a balance of \$5,510,025.

General Fund Budgeting Highlights

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

During the course of fiscal year 2017, the District amended its general fund budget several times. For the general fund, final budgeted revenues and other financing sources were \$16,219,007, which was \$824,696 less than the original budgeted revenues and other financing sources of \$17,043,703. Actual revenues and other financing sources for fiscal 2017 were \$17,373,799 which was \$1,154,792 higher than the final budgeted revenues.

General fund original appropriations of \$15,573,579 were increased to \$17,307,674 in the final budget. The actual budget basis expenditures for fiscal year 2017 totaled \$16,955,528, which was \$352,146 less than the final budgeted appropriations.

**NORTHWESTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(UNAUDITED)

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2017, the District had \$46,355,202 invested in land, land improvements, buildings and improvements, furniture and equipment and vehicles. This entire amount is reported in governmental activities. The following table shows June 30, 2017 balances compared to June 30, 2016.

	Capital Assets at June 30 (Net of Depreciation)	
	<u>Governmental Activities</u>	
	<u>2017</u>	<u>2016</u>
Land	\$ 479,604	\$ 479,604
Land improvements	6,855,330	6,957,414
Building and improvements	37,065,432	38,124,274
Furniture and equipment	1,511,920	1,631,647
Vehicles	<u>442,916</u>	<u>544,549</u>
Total	<u>\$ 46,355,202</u>	<u>\$ 47,737,488</u>

The overall decrease in capital assets is due to depreciation expense of \$1,983,395 and disposals of \$11,142 (net of accumulated depreciation) exceeding capital outlays of \$612,251 in the current period.

See Note 9 to the basic financial statements for detail.

Debt Administration

At June 30, 2017, the District had \$27,875,000 in general obligation bonds outstanding. Of this total, \$200,000 is due within one year and \$27,675,000 is due within greater than one year. The following table summarizes the liabilities outstanding.

	Governmental	Governmental
	Activities	Activities
	<u>2017</u>	<u>2016</u>
General obligation bonds	<u>\$ 27,875,000</u>	<u>\$ 28,125,000</u>
Total	<u>\$ 27,875,000</u>	<u>\$ 28,125,000</u>

See Note 10 to the basic financial statements for detail on the District's debt administration.

**NORTHWESTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(UNAUDITED)**

Current Financial Related Activities

The District is currently in good financial condition. Although stable, there are factors that could have a negative impact in the future.

The Substitute Levy that was renewed for five more years in March, 2016. This levy represents nearly 10% of the General Fund operating revenue. The Permanent Improvement Levy was renewed for six years in November, 2015. Property values in the District were reappraised in 2016. Overall, property values increased over 2.5%. Nearly all of the increases were residential and agricultural values. Commercial property values showed significant decreases. Changes in CAUV calculations in future years are expected to have a significant decrease in agricultural land values. This will not result in a major decrease in tax receipts, but will shift more of the tax burden to residential taxpayers and could be a factor in renewing the Substitute Levy.

State funding in Fiscal Year 2017 was comparable to Fiscal Year 2016. A slight increase in state funding is projected for Fiscal Year 2018. State funding is based on the number of students enrolled. Student enrollment is projected to decrease in Fiscal Year 2018 and future years. If the projections hold, it will result in reduced state funding. It is unknown how future changes to the state funding formula will affect the District.

Negotiated agreements with both unions were completed in 2016. The agreements are in affect from July 1, 2016 – June 30, 2019. The results of the negotiations increases expenditures on salaries, which will partially be offset by a decrease (or slower increase) in expenditures for benefits. The current negotiated agreements include a “spousal exclusion” for medical benefits and include a set dollar amount that the District contributes to insurance benefit plans. It is important for the District to maintain these provisions in future contract to have some control over future expenditures on employee benefits.

The November, 2009 vote 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 buildings were demolished in 2014. The state portion of the construction project was closed in June, 2016. Additional improvements to the District's facilities and grounds will continue.

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 District's system of financial planning, budgeting, and internal financial controls are well regarded. Reduced enrollment and increases in expenditures present possible major challenges. It is crucial for the District to avoid deficit spending. Budget cuts may be necessary in the future if the revenue does not increase at the same pace as expenditures. In addition, the Board of Education has passed a cash balance policy that sets a minimum target cash balance. If balances hit upper targets, some funds will be used for capital projects or early debt retirement. The District plans to continue its sound fiscal management to meet the challenges of the future.

Contacting the District's Financial Management

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

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**NORTHWESTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY, OHIO**

STATEMENT OF NET POSITION
JUNE 30, 2017

	Governmental Activities
Assets:	
Equity in pooled cash and investments	\$ 11,726,603
Receivables:	
Property taxes	7,544,365
Income taxes	872,936
Accounts	29,514
Accrued interest	50,268
Intergovernmental	101,034
Prepayments	27,607
Materials and supplies inventory	55,489
Inventory held for resale	5,353
Restricted investments with trustee	4,289,183
Capital assets:	
Nondepreciable capital assets	479,604
Depreciable capital assets, net	45,875,598
Capital assets, net	46,355,202
Total assets	71,057,554
 Deferred outflows of resources:	
Pension - STRS	4,316,425
Pension - SERS	1,095,276
Total deferred outflows of resources	5,411,701
 Liabilities:	
Accounts payable	20,758
Accrued wages and benefits payable	1,575,477
Intergovernmental payable	55,419
Pension and postemployment benefits payable	262,944
Accrued interest payable	7,981
Long-term liabilities:	
Due within one year	284,059
Due in more than one year:	
Net pension liability	27,172,056
Other amounts due in more than one year	28,733,606
Total liabilities	58,112,300
 Deferred inflows of resources:	
Property taxes levied for the next fiscal year	6,226,594
Pension - STRS	112,181
Pension - SERS	62,489
Total deferred inflows of resources	6,401,264
 Net position:	
Net investment in capital assets	18,190,476
Restricted for:	
Capital projects	2,258,068
Classroom facilities maintenance	727,097
Debt service	5,580,151
Student activities	92,609
Other purposes	169,703
Unrestricted (deficit)	(15,062,413)
Total net position	\$ 11,955,691

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, 2017

	Expenses	Program Revenues		Net (Expense)
		Charges for Services and Sales	Operating Grants and Contributions	Revenue and Changes in Net Position Governmental Activities
Governmental activities:				
Instruction:				
Regular	\$ 10,048,700	\$ 1,402,637	\$ 75,067	\$ (8,570,996)
Special	3,122,426	165,635	1,192,242	(1,764,549)
Other	3,391	-	-	(3,391)
Support services:				
Pupil	1,000,163	271	60,863	(939,029)
Instructional staff	1,049,715	-	125,597	(924,118)
Board of education	71,128	-	-	(71,128)
Administration	1,136,292	1,364	-	(1,134,928)
Fiscal	721,571	-	-	(721,571)
Operations and maintenance	1,688,384	433	72	(1,687,879)
Pupil transportation	1,193,734	956	39,623	(1,153,155)
Operation of non-instructional services:				
Other non-instructional services	47,383	58,359	348	11,324
Food service operations	573,644	245,776	336,919	9,051
Extracurricular activities	452,206	113,317	8,556	(330,333)
Interest and fiscal charges	1,694,485	-	-	(1,694,485)
Total governmental activities	\$ 22,803,222	\$ 1,988,748	\$ 1,839,287	(18,975,187)
General revenues:				
Property taxes levied for:				
General purposes				5,219,321
Facilities maintenance				110,721
Debt service				1,255,142
Capital				171,404
Income taxes levied for:				
General purposes				2,248,204
Grants and entitlements not restricted to specific programs				
Investment earnings				75,102
Miscellaneous				36,994
Total general revenues				17,847,799
Change in net position				(1,127,388)
Net position at beginning of year				13,083,079
Net position at end of year				\$ 11,955,691

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**NORTHWESTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY, OHIO**

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2017

	General	Bond Retirement	Nonmajor Governmental Funds	Total Governmental Funds
Assets:				
Equity in pooled cash and investments.	\$ 7,357,110	\$ 1,498,714	\$ 2,870,779	\$ 11,726,603
Receivables:				
Property taxes.	5,973,429	1,380,989	189,947	7,544,365
Income taxes	872,936	-	-	872,936
Accounts	27,971	-	1,543	29,514
Accrued interest	22,521	25,052	2,695	50,268
Intergovernmental.	89,390	-	11,644	101,034
Prepayments.	26,286	-	1,321	27,607
Materials and supplies inventory.	53,754	-	1,735	55,489
Inventory held for resale.	-	-	5,353	5,353
Restricted assets:				
Restricted investments with trustee	-	3,761,750	527,433	4,289,183
Total assets	<u>\$ 14,423,397</u>	<u>\$ 6,666,505</u>	<u>\$ 3,612,450</u>	<u>\$ 24,702,352</u>
Liabilities:				
Accounts payable	\$ 20,355	\$ -	\$ 403	\$ 20,758
Accrued wages and benefits payable	1,516,482	-	58,995	1,575,477
Compensated absences payable	15,851	-	-	15,851
Intergovernmental payable	54,672	-	747	55,419
Pension and postemployment benefits payable	242,129	-	20,815	262,944
Total liabilities.	<u>1,849,489</u>	<u>-</u>	<u>80,960</u>	<u>1,930,449</u>
Deferred inflows of resources:				
Property taxes levied for the next fiscal year.	4,990,303	1,078,373	157,918	6,226,594
Delinquent property tax revenue not available.	259,660	54,551	8,388	322,599
Income tax revenue not available	168,804	-	-	168,804
Intergovernmental revenue not available.	33,443	-	-	33,443
Accrued interest not available.	9,088	23,556	2,695	35,339
Miscellaneous revenue not available.	25,890	-	-	25,890
Total deferred inflows of resources	<u>5,487,188</u>	<u>1,156,480</u>	<u>169,001</u>	<u>6,812,669</u>
Fund balances:				
Nonspendable:				
Materials and supplies inventory.	53,754	-	1,735	55,489
Prepays.	26,286	-	1,321	27,607
Restricted:				
Debt service	-	5,510,025	527,433	6,037,458
Capital improvements	-	-	2,446,649	2,446,649
Food service operations	-	-	179,566	179,566
Extracurricular.	-	-	92,609	92,609
Endowments.	-	-	5,414	5,414
Committed:				
Latchkey programs	-	-	117,221	117,221
Assigned:				
Student instruction	5,609	-	-	5,609
Student and staff support.	99,327	-	-	99,327
Subsequent year's appropriations	180,092	-	-	180,092
Insurance reserve	71,775	-	-	71,775
Unassigned (deficit).	6,649,877	-	(9,459)	6,640,418
Total fund balances	<u>7,086,720</u>	<u>5,510,025</u>	<u>3,362,489</u>	<u>15,959,234</u>
Total liabilities, deferred inflows and fund balances	<u>\$ 14,423,397</u>	<u>\$ 6,666,505</u>	<u>\$ 3,612,450</u>	<u>\$ 24,702,352</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**NORTHWESTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY, OHIO**

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

Total governmental fund balances		\$	15,959,234
<i>Amounts reported for governmental activities on the statement of net position are different because:</i>			
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.			46,355,202
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred inflows in the funds:			
Property taxes receivable	\$	322,599	
Income taxes receivable		168,804	
Accounts receivable		25,890	
Accrued interest receivable		35,339	
Intergovernmental receivable		33,443	
Total		586,075	586,075
Unamortized premiums on bonds issued are not recognized in the funds.			(289,726)
The net pension liability is not due and payable in the current period; therefore, the liability and related deferred inflows/outflows are not reported in governmental funds:			
Deferred outflows of resources - pension		5,411,701	
Deferred inflows of resources - pension		(174,670)	
Net pension liability		(27,172,056)	
Total		(21,935,025)	(21,935,025)
Accrued interest payable is not due and payable in the current period and therefore is not reported in the funds.			(7,981)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.			
General obligation bonds		(27,875,000)	
Compensated absences		(837,088)	
Total		(28,712,088)	(28,712,088)
Net position of governmental activities		\$	11,955,691

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**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, 2017

	General	Bond Retirement	Nonmajor Governmental Funds	Total Governmental Funds
Revenues:				
From local sources:				
Property taxes	\$ 5,228,255	\$ 1,261,202	\$ 282,454	\$ 6,771,911
Income taxes	2,234,734	-	-	2,234,734
Tuition	1,342,980	-	58,359	1,401,339
Earnings on investments	54,825	6,191	7,412	68,428
Charges for services	-	-	245,776	245,776
Extracurricular	132,165	-	105,470	237,635
Classroom materials and fees	64,411	-	11,200	75,611
Rental income	433	-	-	433
Other local revenues	44,093	-	29,178	73,271
Intergovernmental - state	8,027,530	207,846	52,367	8,287,743
Intergovernmental - federal	153,740	1,015,644	1,133,845	2,303,229
Total revenues	<u>17,283,166</u>	<u>2,490,883</u>	<u>1,926,061</u>	<u>21,700,110</u>
Expenditures:				
Current:				
Instruction:				
Regular	7,983,566	-	55,879	8,039,445
Special	2,508,354	-	500,441	3,008,795
Other	3,370	-	-	3,370
Support services:				
Pupil	886,975	-	60,830	947,805
Instructional staff	718,436	-	122,984	841,420
Board of education	69,970	-	377	70,347
Administration	1,053,584	16,545	1,308	1,071,437
Fiscal	563,256	110,728	16,511	690,495
Operations and maintenance	1,394,842	-	53,027	1,447,869
Pupil transportation	1,044,068	-	862	1,044,930
Operation of non-instructional services:				
Other non-instructional services	-	-	45,429	45,429
Food service operations	-	-	510,536	510,536
Extracurricular activities	380,296	-	102,169	482,465
Facilities acquisition and construction	-	-	651,421	651,421
Debt service:				
Principal retirement	-	250,000	-	250,000
Interest and fiscal charges	-	1,632,763	80,330	1,713,093
Total expenditures	<u>16,606,717</u>	<u>2,010,036</u>	<u>2,202,104</u>	<u>20,818,857</u>
Excess (deficiency) of revenues over (under) expenditures	<u>676,449</u>	<u>480,847</u>	<u>(276,043)</u>	<u>881,253</u>
Other financing sources (uses):				
Sale of assets	4,350	-	-	4,350
Transfers in	-	-	460,050	460,050
Transfers (out)	(460,050)	-	-	(460,050)
Total other financing sources (uses)	<u>(455,700)</u>	<u>-</u>	<u>460,050</u>	<u>4,350</u>
Net change in fund balances	220,749	480,847	184,007	885,603
Fund balances at beginning of year	<u>6,865,971</u>	<u>5,029,178</u>	<u>3,178,482</u>	<u>15,073,631</u>
Fund balances at end of year	<u>\$ 7,086,720</u>	<u>\$ 5,510,025</u>	<u>\$ 3,362,489</u>	<u>\$ 15,959,234</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**NORTHWESTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY, OHIO**

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

Net change in fund balances - total governmental funds	\$	885,603
<i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
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 as depreciation expense.		
Capital asset additions	\$ 612,251	
Current year depreciation	<u>(1,983,395)</u>	
Total		(1,371,144)
The net effect of various miscellaneous transactions involving capital assets (i.e., sales, disposals, trade-ins, and donations) is to decrease net position.		
		(11,142)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Property taxes	(15,323)	
Income taxes	13,470	
Tuition	2,020	
Earnings on investments	7,760	
Intergovernmental	<u>(32,203)</u>	
Total		(24,276)
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of net position.		
		250,000
Premiums on bonds are amortized over the life of the issuance in the statement of activities.		
		18,557
Accrued interest payable is not due and payable in the current period and therefore is not reported in the funds.		
		51
Contractually required contributions are reported as expenditures in governmental funds; however, the statement of net position reports these amounts as deferred outflows.		
		1,344,987
Except for amounts reported as deferred inflows/outflows, changes in the net pension liability are reported as pension expense in the statement of activities.		
		(2,164,371)
Some expenses reported in the statement of activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		
		<u>(55,653)</u>
Change in net position of governmental activities	\$	<u>(1,127,388)</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**NORTHWESTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY, OHIO**

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

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
From local sources:				
Property taxes	\$ 5,310,954	\$ 5,048,675	\$ 5,379,327	\$ 330,652
Income taxes.	2,203,702	2,097,940	2,230,261	132,321
Tuition.	1,355,588	1,290,529	1,383,914	93,385
Earnings on investments	66,148	62,973	113,605	50,632
Classroom materials and fees	61,211	58,274	64,461	6,187
Rental income	173	164	388	224
Other local revenues	16,784	15,978	22,175	6,197
Intergovernmental - state	7,926,288	7,545,883	8,020,734	474,851
Intergovernmental - federal	88,855	84,591	148,459	63,868
Total revenues	<u>17,029,703</u>	<u>16,205,007</u>	<u>17,363,324</u>	<u>1,158,317</u>
Expenditures:				
Current:				
Instruction:				
Regular	7,177,391	7,901,790	7,783,808	117,982
Special.	2,107,794	2,517,339	2,458,640	58,699
Other.	9,501	5,974	2,366	3,608
Support services:				
Pupil.	911,723	927,807	888,096	39,711
Instructional staff	708,602	720,137	715,108	5,029
Board of education	89,512	79,219	70,666	8,553
Administration.	1,077,718	1,097,811	1,068,390	29,421
Fiscal	566,222	586,205	567,540	18,665
Operations and maintenance.	1,398,509	1,413,847	1,391,240	22,607
Pupil transportation	1,024,387	1,086,822	1,072,003	14,819
Extracurricular activities.	381,220	399,923	366,900	33,023
Total expenditures	<u>15,452,579</u>	<u>16,736,874</u>	<u>16,384,757</u>	<u>352,117</u>
Excess (deficiency) of revenues over (under) expenditures.	<u>1,577,124</u>	<u>(531,867)</u>	<u>978,567</u>	<u>1,510,434</u>
Other financing sources (uses):				
Refund of prior year's expenditures	12,000	12,000	6,125	(5,875)
Transfers (out).	(121,000)	(570,800)	(570,771)	29
Sale of capital assets	2,000	2,000	4,350	2,350
Total other financing sources (uses)	<u>(107,000)</u>	<u>(556,800)</u>	<u>(560,296)</u>	<u>(3,496)</u>
Net change in fund balance	1,470,124	(1,088,667)	418,271	1,506,938
Fund balance at beginning				
of year	6,774,963	6,774,963	6,774,963	-
Prior year encumbrances appropriated	8,843	8,843	8,843	-
Fund balance at end of year	<u>\$ 8,253,930</u>	<u>\$ 5,695,139</u>	<u>\$ 7,202,077</u>	<u>\$ 1,506,938</u>

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, 2017

	Agency
Assets:	
Equity in pooled cash and investments	\$ 161,946
Receivables:	
Intergovernmental.	522
Total assets.	\$ 162,468
Liabilities:	
Undistributed assets.	\$ 117,792
Due to students	44,676
Total liabilities	\$ 162,468

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**NORTHWESTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

NOTE 1 - DESCRIPTION OF THE DISTRICT AND REPORTING ENTITY

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

The District is located in Clark County. The District is staffed by 85 non-certified employees including administrative employees and 108 certified full-time teaching personnel who provide services to 1,739 students and other community members.

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

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

The District is associated with four jointly governed organizations and one insurance purchasing pool. These organizations are discussed in Note 15 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

Insurance Purchasing Pool:

- Ohio School Boards Association Workers' Compensation Group Rating Plan

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to local 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 District's accounting policies are described below.

**NORTHWESTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

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

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 non-fiduciary activities of the 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.

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 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 other long-term debt obligations, as well as compensated absences, are recorded only when payment is due.

Property taxes, income 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 District.

C. Fund Accounting

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

**NORTHWESTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

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 District reports the following major governmental funds:

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

Bond Retirement 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 District is obligated in some manner for the payment.

Other governmental funds of the District are used to account for (a) financial resources that are restricted, committed, or assigned to expenditures for capital outlays including the acquisition or construction of capital facilities and other capital assets and (b) specific revenue sources that are restricted or committed to an expenditure for specified purposes other than debt service or capital projects.

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.

D. 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.

**NORTHWESTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

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

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 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 tax rate determination.

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

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 appropriated.

E. Cash and Cash Equivalents

To improve cash management, all cash received by the 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 District records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Investments" on the statement of net position and governmental fund balance sheet.

**NORTHWESTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

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

The 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.

During fiscal year, the District invested in Federal National Mortgage Association (FNMA) securities, Federal Farm Credit Bank (FFCB) securities, a US government money market, commercial paper and negotiable certificates of deposit.

During fiscal year 2017, the District invested in STAR Ohio. STAR Ohio (the State Treasury Asset Reserve of Ohio), is an investment pool managed by the State Treasurer’s Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but has adopted Governmental Accounting Standards Board (GASB), Statement No. 79, “Certain External Investment Pools and Pool Participants.” The District measures its investment in STAR Ohio at the net asset value (NAV) per share provided by STAR Ohio. The NAV per share is calculated on an amortized cost basis that provides an NAV per share that approximates fair value.

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

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year amounted to \$54,825 which includes \$9,212 assigned from other funds.

An analysis of the District’s investments at year end is provided in Note 4.

F. 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.

G. 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.

**NORTHWESTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

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

H. 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 acquisition values as of the date received. The District's capitalization threshold is \$5,000. The District does not possess any infrastructure.

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.

I. Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund loans receivables/payables". These amounts are eliminated in the governmental type activities columns of the statement of net position.

J. 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 District will compensate the employees for the benefits through paid time off or some other means. The 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 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.

K. 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.

**NORTHWESTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

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

L. Interfund Transactions

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

M. Deferred Outflows of Resources and Deferred Inflows of Resources

In addition to assets, the government-wide statement of net position will report a separate section for deferred outflows of resources. Deferred outflows of resources, represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. For the District, see Note 12 for deferred outflows of resources related the District's net pension liability.

In addition to liabilities, both the government-wide statement of net position and the governmental fund financial statements report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. For the District, deferred inflows of resources include property taxes and unavailable revenue. Property taxes represent amounts for which there is an enforceable legal claim as of June 30, 2017, but which were levied to finance fiscal year 2018 operations. These amounts have been recorded as a deferred inflow of resources on both the government-wide statement of net position and the governmental fund financial statements. Unavailable revenue is reported only on the governmental funds balance sheet, and represents receivables which will not be collected within the available period. For the District unavailable revenue includes, but is not limited to, delinquent property taxes and intergovernmental grants. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available.

For the District, see Note 12 for deferred inflows of resources related to the District's net pension liability. This deferred inflow of resources is only reported on the government-wide statement of net position

N. 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.

Non-exchange transactions, in which the 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. 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 District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

**NORTHWESTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

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

O. Restricted Assets

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.

P. Fund Balance

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

Nonspendable - The nonspendable fund balance classification includes amounts that cannot be spent because they are not in spendable form or legally required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash. It also includes the long-term amount of loans receivable.

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

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

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

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

**NORTHWESTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

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

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

Q. Net Position

Net position represents the difference between assets and deferred outflows and liabilities and deferred inflows. The net position component “net investment in capital assets,” consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction or improvement of those assets or related debt also should be included in this component of net position. Net position is reported as restricted when there are limitations imposed on its use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

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

R. Estimates

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

S. Budget Stabilization Arrangement

The District has established a budget stabilization reserve in accordance with authority established by State law. Additions to the budget stabilization reserve can only be made by formal resolution of the Board of Education. Expenditures out of the budget stabilization reserve can only be made to offset future budget deficits. At June 30, 2017, the balance in the budget stabilization reserve was \$39,318. This amount is included in unassigned fund balance of the general fund and in unrestricted net position on the statement of net position.

T. Pensions

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

**NORTHWESTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

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

U. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal year 2017.

V. Fair Market Value

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principles

For fiscal year 2017, the District has implemented GASB Statement No. 77, "*Tax Abatement Disclosures*", GASB Statement No. 78, "*Pensions Provided Through Certain Multiple-Employer Defined Benefit Pension Plans*", GASB Statement No. 80, "*Blending Requirements for Certain Component Units - An Amendment of GASB Statement No. 14*" and GASB Statement No. 82, "*Pension Issues - An Amendment of GASB Statements No. 67, No. 68 and No. 73*".

GASB Statement No. 77 requires governments that enter into tax abatement agreements to disclose certain information about the agreement. GASB Statement No. 77 also requires disclosures related to tax abatement agreements that have been entered into by other governments that reduce the reporting government's tax revenues. These disclosures were incorporated in the District's fiscal year 2017 financial statements (see Note 20); however, there was no effect on beginning net position/fund balance.

GASB Statement No. 78 establishes accounting and financial reporting standards for defined benefit pensions provided to the employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan (cost-sharing pension plan) that meets the criteria in paragraph 4 of Statement 68 and that (a) is not a state or local governmental pension plan, (b) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and (c) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan). The implementation of GASB Statement No. 78 did not have an effect on the financial statements of the District.

GASB Statement No. 80 improves the financial reporting by clarifying the financial statement presentation requirements for certain component units. This Statement applies to component units that are organized as not-for-profit corporations in which the primary government is the sole corporate member. The implementation of GASB Statement No. 80 did not have an effect on the financial statements of the District.

**NORTHWESTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

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

B. Deficit Fund Balances

Fund balances at June 30, 2017 included the following individual fund deficits:

<u>Nonmajor funds</u>	<u>Deficit</u>
Title I	\$ 3,505
Improving teacher quality	5,245

The general fund is liable for any deficit in these funds and provides transfers when cash is required, not when accruals occur. The deficit fund balances resulted from adjustments for accrued liabilities.

NOTE 4 - DEPOSITS AND INVESTMENTS

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

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

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

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;

**NORTHWESTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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;
5. No-load money market mutual funds consisting exclusively of obligations described in items (1) and (2) above 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);
7. Certain banker's acceptance and commercial paper notes for a period not to exceed one hundred eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest classifications by at least two nationally recognized rating agencies.

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the District, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

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

A. Restricted Investments with Trustee

At fiscal year end, \$4,289,183 was on deposit with an escrow agent for monies held in relation to the District's sinking fund deposits that are required for the District's Series 2010 Qualified School Construction bonds and the Series 2011 Qualified School Construction bonds (See Note 10).

These funds are not included in the "carrying amount of deposits".

B. Deposits with Financial Institutions

At June 30, 2017, the carrying amount of all District deposits was \$6,172,364. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2017, \$30,660 of the District's bank balance of \$6,348,952 was exposed to custodial risk as discussed below, while \$6,318,292 was covered by the Federal Deposit Insurance Corporation.

**NORTHWESTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

Custodial credit risk is the risk that, in the event of bank failure, the District's deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the District. The District has no deposit policy for custodial credit risk beyond the requirements of State statute. Although the securities were held by the pledging institutions' trust department and all statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the District to a successful claim by the FDIC.

C. Investments

As of June 30, 2017, the District had the following investments and maturities:

Measurement/ <u>Investment type</u>	Measurement <u>Value</u>	Investment Maturities				
		6 months or less	7 to 12 months	13 to 18 months	19 to 24 months	Greater than 24 months
Fair Value:						
FNMA	\$ 2,071,879	\$ -	\$ 124,710	\$ -	\$ -	\$ 1,947,169
FFCB	610,308	-	-	-	-	610,308
U.S. Government money market mutual fund	3,421	3,421	-	-	-	-
Commercial paper	1,185,726	542,250	643,476	-	-	-
Negotiable CD's	1,684,605	-	-	943,100	-	741,505
Amortized Cost:						
STAR Ohio	<u>160,246</u>	<u>160,246</u>	-	-	-	-
Total	<u>\$ 5,716,185</u>	<u>\$ 705,917</u>	<u>\$ 768,186</u>	<u>\$ 943,100</u>	<u>\$ -</u>	<u>\$ 3,298,982</u>

The weighted average maturity of investments is 2.02 years.

The District's investments in U.S. Government money market mutual funds are valued using quoted market prices in active markets (Level 1 inputs). The District's investments in federal agency securities (FNMA, FFCB, commercial paper) and negotiable CD's are valued using quoted prices in markets that are not considered to be active, dealer quotations or alternative pricing sources for similar assets or liabilities for which all significant inputs are observable, either directly or indirectly (Level 2 inputs).

Interest Rate Risk: As a means of limiting its exposure to fair value losses arising from rising interest rates and according to State law, the District's investment policy limits investment portfolio maturities to five years or less. The District's investment policy also requires that the investment portfolio be structured so that securities mature to meet cash requirements for ongoing operations and/or long-term debt payments. The stated intent of the policy is to avoid the need to sell securities prior to maturity.

Credit Risk: The District's investments in federal agency securities were rated AA+ and Aaa by Standard & Poor's and Moody's Investor Services, respectively. STAR Ohio and the U.S. government money market mutual funds were rated AAAM by Standard & Poor's. The commercial paper was rated A-1+ and P-1 by Moody's and Standard & Poor's, respectively. The District has no investment policy that would further limit its investment choices.

**NORTHWESTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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

Concentration of Credit Risk: The District places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the District at June 30, 2017:

<u>Measurement/ Investment type</u>	<u>Measurement Value</u>	<u>% of Total</u>
Fair Value:		
FNMA	\$ 2,071,879	36.25
FFCB	610,308	10.68
U.S. Government money market mutual fund	3,421	0.06
Commercial paper	1,185,726	20.75
Negotiable CD's	1,684,605	29.46
Amortized Cost:		
STAR Ohio	<u>160,246</u>	<u>2.80</u>
Total	<u>\$ 5,716,185</u>	<u>100.00</u>

D. Reconciliation of Cash and Investments to the Statement of Net Position

The following is a reconciliation of cash and investments as reported in the note above to cash and investments as reported on the statement of net position as of June 30, 2017:

<u>Cash and investments per note</u>	
Carrying amount of deposits	\$ 6,172,364
Restricted investments with trustee	4,289,183
Investments	<u>5,716,185</u>
Total	<u>\$ 16,177,732</u>
 <u>Cash and investments per statement of net position</u>	
Governmental activities	\$ 16,015,786
Agency fund	<u>161,946</u>
Total	<u>\$ 16,177,732</u>

**NORTHWESTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

NOTE 5 - INTERFUND TRANSACTIONS

Interfund transfers for the year ended June 30, 2017, consisted of the following, as reported in the fund financial statements:

Transfers from the general fund to:

Nonmajor governmental fund	<u>\$ 460,050</u>
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Interfund transfers between governmental funds are eliminated for reporting on the government-wide financial statements.

NOTE 6 - PROPERTY TAXES

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

Property taxes include amounts levied against all real property and public utility property. Real property tax revenues received in calendar year 2017 represent the collection of calendar year 2016 taxes. Real property taxes received in calendar year 2017 were levied after April 1, 2016, on the assessed values as of January 1, 2016, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established. Public utility property tax revenues received in calendar year 2017 represent the collection of calendar year 2016 taxes. Public utility real and personal property taxes received in calendar year 2017 became a lien on December 31, 2015, were levied after April 1, 2016, and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

The District receives property taxes from Clark and Champaign Counties. The County Auditors periodically advance to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2017, are available to finance fiscal year 2017 operations. The amount available as an advance at June 30, 2017 was \$723,466 in the general fund, \$248,065 in the bond retirement fund and \$23,641 in the permanent improvement fund (a nonmajor governmental fund). This amount is recorded as revenue. The amount available for advance at June 30, 2016 was \$763,817 in the general fund, \$310,310 in the bond retirement fund and \$24,626 in the permanent improvement fund (a nonmajor governmental fund). The amount of second-half real property taxes available for advance at fiscal year-end can vary based on the date the tax bills are sent.

Accrued property taxes receivable includes real property, public utility property and delinquent tangible personal property taxes which are measurable as of June 30, 2017 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year-end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred inflows.

On the accrual basis of accounting, collectible delinquent property taxes have been recorded as a receivable and revenue, while on a modified accrual basis of accounting the revenue has been reported as a deferred inflow.

**NORTHWESTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 6 - PROPERTY TAXES - (Continued)

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

	2016 Second Half Collections		2017 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and other real estate	\$ 216,358,800	96.47	\$ 221,393,860	96.25
Public utility personal	<u>7,927,330</u>	<u>3.53</u>	<u>8,631,230</u>	<u>3.75</u>
Total	<u>\$ 224,286,130</u>	<u>100.00</u>	<u>\$ 230,025,090</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation	\$39.08		\$38.39	

NOTE 7 - INCOME TAX

The District levies an income tax of one percent on substantially all income earned by 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 District. The proceeds are allocated to the General Fund. Income tax revenue for fiscal year 2017 on the modified accrual basis was \$2,234,734.

NOTE 8 - RECEIVABLES

Receivables at June 30, 2017 consisted of taxes, accounts (billings for user charged services, rentals and student fees), accrued interest and intergovernmental grants and entitlements. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs and the current year guarantee of federal funds. A summary of the principal items of receivables reported on the statement of net position follows:

Governmental activities	
Property taxes	\$ 7,544,365
Income taxes	872,936
Accounts	29,514
Intergovernmental	101,034
Accrued interest	<u>50,268</u>
Total governmental activities	<u>\$ 8,598,117</u>

Receivables have been disaggregated on the face of the basic financial statements. All receivables are expected to be collected within the subsequent year.

**NORTHWESTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 9 - CAPITAL ASSETS

Capital asset activity for the fiscal year-ended June 30, 2017, was as follows:

	Balance <u>June 30, 2016</u>	<u>Additions</u>	<u>Deductions</u>	Balance <u>June 30, 2017</u>
Governmental activities:				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 479,604	\$ -	\$ -	\$ 479,604
Total capital assets, not being depreciated	<u>479,604</u>	<u>-</u>	<u>-</u>	<u>479,604</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	9,019,820	415,216	-	9,435,036
Buildings and improvements	42,035,121	-	-	42,035,121
Furniture and equipment	2,807,467	197,035	-	3,004,502
Vehicles	<u>1,932,339</u>	<u>-</u>	<u>(111,421)</u>	<u>1,820,918</u>
Total capital assets, being depreciated	<u>55,794,747</u>	<u>612,251</u>	<u>(111,421)</u>	<u>56,295,577</u>
<i>Less: accumulated depreciation</i>				
Land improvements	(2,062,406)	(517,300)	-	(2,579,706)
Buildings and improvements	(3,910,847)	(1,058,842)	-	(4,969,689)
Furniture and equipment	(1,175,820)	(316,762)	-	(1,492,582)
Vehicles	<u>(1,387,790)</u>	<u>(90,491)</u>	<u>100,279</u>	<u>(1,378,002)</u>
Total accumulated depreciation	<u>(8,536,863)</u>	<u>(1,983,395)</u>	<u>100,279</u>	<u>(10,419,979)</u>
Governmental activities capital assets, net	<u>\$ 47,737,488</u>	<u>\$ (1,371,144)</u>	<u>\$ (11,142)</u>	<u>\$ 46,355,202</u>

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$ 1,589,663
Support Services:	
Instructional staff	169,880
Operations and maintenance	67,404
Pupil transportation	89,612
Operation of non instructional services:	
Food service operations	43,852
Extracurricular activities	<u>22,984</u>
Total depreciation expense	<u>\$ 1,983,395</u>

**NORTHWESTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 10 - LONG-TERM OBLIGATIONS

During the fiscal year 2017, the following changes occurred in governmental activities long-term obligations.

	Balance			Balance	Amounts
	<u>June 30, 2016</u>	<u>Increase</u>	<u>Decrease</u>	<u>June 30, 2017</u>	<u>Due in</u>
					<u>One Year</u>
General obligation bonds:					
Series 2010, QSCB	\$ 15,000,000	\$ -	\$ -	\$ 15,000,000	\$ -
Series 2011, QSCB	1,385,000	-	-	1,385,000	-
Series 2010, BABs	11,740,000	-	(250,000)	11,490,000	200,000
Net pension liability	21,598,809	5,573,247	-	27,172,056	-
Compensated absences	<u>796,307</u>	<u>595,264</u>	<u>(538,632)</u>	<u>852,939</u>	<u>84,059</u>
Total	<u>\$ 50,520,116</u>	<u>\$ 6,168,511</u>	<u>\$ (788,632)</u>	55,899,995	<u>\$ 284,059</u>
Add: Unamortized premium on refunding				<u>289,726</u>	
Total on statement of net position				<u>\$ 56,189,721</u>	

See Note 12 for detail on the District's net pension liability.

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

The District's total debt limitation was \$26,212,283 with an unvoted debt margin of \$230,025 and an energy conservation debt margin of \$2,070,226 at June 30, 2017. In November 2009, voters in the District approved the issuance of bonds for the construction of two new school buildings to replace the three buildings currently in use.

On May 26, 2010, the 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 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:

Fiscal Year Ending,	Series 2010, Qualified School Construction Bonds - Building		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ -	\$ 48,000	\$ 48,000
2019	-	48,000	48,000
2020	-	48,000	48,000
2021	-	48,000	48,000
2022	-	48,000	48,000
2023 - 2027	<u>15,000,000</u>	<u>240,000</u>	<u>15,240,000</u>
Total	<u>\$ 15,000,000</u>	<u>\$ 480,000</u>	<u>\$ 15,480,000</u>

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

**NORTHWESTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 10 - LONG-TERM OBLIGATIONS - (Continued)

On November 23, 2010, the 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 District to pay 35% of interest costs. The amortization schedule with net interest and the principal fund payment is as follows:

Fiscal Year Ending,	Series 2010, Build America Bonds		
	Principal	Interest	Total
2018	\$ 200,000	\$ 490,189	\$ 690,189
2019	200,000	484,339	684,339
2020	200,000	478,489	678,489
2021	200,000	472,639	672,639
2022	195,000	466,789	661,789
2023 - 2027	510,000	2,231,182	2,741,182
2028 - 2032	3,400,000	1,920,815	5,320,815
2033 - 2037	4,555,000	1,084,566	5,639,566
2038 - 2039	<u>2,030,000</u>	<u>134,734</u>	<u>2,164,734</u>
Total	<u>\$ 11,490,000</u>	<u>\$ 7,763,742</u>	<u>\$ 19,253,742</u>

On March 31, 2011, the 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 District to pay 5.30% interest. The net interest cost to the District will be 0.50%. The amortization schedule with net interest and the sinking fund payment is as follows:

Fiscal Year Ending,	Series 2011, Qualified School Construction Bonds - HB 264		
	Principal	Interest	Total
2018	\$ -	\$ 6,925	\$ 6,925
2019	-	6,925	6,925
2020	-	6,925	6,925
2021	-	6,925	6,925
2022	-	6,925	6,925
2023 - 2026	<u>1,385,000</u>	<u>27,700</u>	<u>1,412,700</u>
Total	<u>\$ 1,385,000</u>	<u>\$ 62,325</u>	<u>\$ 1,447,325</u>

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

**NORTHWESTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 11 - RISK MANAGEMENT

A. Property and Liability

The District is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2017, the District contracted with the Southwestern Ohio EPC Liability, Fleet & Property Program (LFP) and Arthur J. Gallagher & Co. for property, general liability, professional and fleet insurance. Coverage provided by the LFP is as follows:

Building and Contents - replacement cost (\$5,000 Property / \$1,000 APD deductible)	-\$350,000,000 Blanket Limit -Refer to Statement of Value for specific limits
Boiler and Machinery (\$3,500 deductible)	\$ 250,000,000
Automobile Liability (no deductible)	1,000,000
Professional Liability (\$10,000 SBLL / \$15,000 EPLI 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	5,000,000

Settle 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.

B. Workers' Compensation

For fiscal year 2017, the 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 District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating Districts is calculated as one experience and a common premium rate is applied to all Districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. 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 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.

**NORTHWESTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

NOTE 12 - DEFINED BENEFIT PENSION PLANS

Net Pension Liability

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

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

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

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

The proportionate share of each plan’s unfunded benefits is presented as a long-term *net pension liability* on the accrual basis of accounting. Any liability for the contractually-required pension contribution outstanding at the end of the year is included in *pension and postemployment benefits payable* on both the accrual and modified accrual bases of accounting.

Plan Description - School Employees Retirement System (SERS)

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

**NORTHWESTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 12 - DEFINED BENEFIT PENSION PLANS - (Continued)

Age and service requirements for retirement are as follows:

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

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

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

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

Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS’ Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System’s funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2017, the entire 14 percent was allocated to pension, death benefits, and Medicare B and no portion of the employer contribution rate was allocated to the Health Care Fund.

The District’s contractually required contribution to SERS was \$328,572 for fiscal year 2017. Of this amount, \$46,153 is reported as pension and postemployment benefits payable.

Plan Description - State Teachers Retirement System (STRS)

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

**NORTHWESTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

NOTE 12 - DEFINED BENEFIT PENSION PLANS - (Continued)

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

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

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

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

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

Funding Policy – Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. For the fiscal year ended June 30, 2017, plan members were required to contribute 14 percent of their annual covered salary. The District was required to contribute 14 percent; the entire 14 percent was the portion used to fund pension obligations. The fiscal year 2017 contribution rates were equal to the statutory maximum rates.

The District's contractually required contribution to STRS was \$1,016,415 for fiscal year 2017. Of this amount, \$178,204 is reported as pension and postemployment benefits payable.

**NORTHWESTERN LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 12 - DEFINED BENEFIT PENSION PLANS - (Continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

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

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportion of the net pension liability prior measurement date	0.06465960%	0.06480161%	
Proportion of the net pension liability current measurement date	<u>0.06437350%</u>	<u>0.06710035%</u>	
Change in proportionate share	<u>-0.00028610%</u>	<u>0.00229874%</u>	
Proportionate share of the net pension liability	\$ 4,711,546	\$ 22,460,510	\$ 27,172,056
Pension expense	\$ 447,046	\$ 1,717,325	\$ 2,164,371

At June 30, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

**NORTHWESTERN LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 12 - DEFINED BENEFIT PENSION PLANS - (Continued)

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Deferred outflows of resources			
Differences between expected and actual experience	\$ 63,547	\$ 907,512	\$ 971,059
Net difference between projected and actual earnings on pension plan investments	388,636	1,864,828	2,253,464
Changes of assumptions	314,521	-	314,521
Difference between District contributions and proportionate share of contributions/ change in proportionate share	-	527,670	527,670
District contributions subsequent to the measurement date	<u>328,572</u>	<u>1,016,415</u>	<u>1,344,987</u>
Total deferred outflows of resources	<u><u>\$ 1,095,276</u></u>	<u><u>\$ 4,316,425</u></u>	<u><u>\$ 5,411,701</u></u>
Deferred inflows of resources			
Difference between District contributions and proportionate share of contributions/ change in proportionate share	<u>\$ 62,489</u>	<u>\$ 112,181</u>	<u>\$ 174,670</u>
Total deferred inflows of resources	<u><u>\$ 62,489</u></u>	<u><u>\$ 112,181</u></u>	<u><u>\$ 174,670</u></u>

\$1,344,987 reported as deferred outflows of resources related to pension resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Fiscal Year Ending June 30:			
2018	\$ 162,965	\$ 533,468	\$ 696,433
2019	162,686	533,468	696,154
2020	266,844	1,249,055	1,515,899
2021	<u>111,720</u>	<u>871,838</u>	<u>983,558</u>
Total	<u><u>\$ 704,215</u></u>	<u><u>\$ 3,187,829</u></u>	<u><u>\$ 3,892,044</u></u>

**NORTHWESTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

NOTE 12 - DEFINED BENEFIT PENSION PLANS - (Continued)

Actuarial Assumptions - SERS

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

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

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

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

Wage Inflation	3.00 percent
Future Salary Increases, including inflation	3.50 percent to 18.20 percent
COLA or Ad Hoc COLA	3 percent
Investment Rate of Return	7.50 percent net of investments expense, including inflation
Actuarial Cost Method	Entry Age Normal (level percent of payroll)

For post-retirement mortality, the table used in evaluating allowances to be paid is the RP-2014 Blue Collar Mortality Table with fully generational projection and Scale BB, with 120% of male rates and 110% of female rates used. The RP-2000 Disabled Mortality Table with 90% for male rates and 100% for female rates set back five years is used for the period after disability retirement. Special mortality tables are used for the period after disability retirement.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an experience study that was completed June 30, 2015. As a result of the actuarial experience study, the following changes of assumptions affected the total pension liability since the prior measurement date: (a) the assumed rate of inflation was reduced from 3.25% to 3.00%, (b) payroll growth assumption was reduced from 4.00% to 3.50%, (c) assumed real wage growth was reduced from 0.75% to 0.50%, (d) Rates of withdrawal, retirement and disability were updated to reflect recent experience, (e) mortality among active members was updated to RP-2014 Blue Collar Mortality Table with fully generational projection and a five year age set-back for both males and females, (f) mortality among service retired members, and beneficiaries was updated to the following RP-2014 Blue Collar Mortality Table with fully generational projection with Scale BB, 120% of male rates, and 110% of female rates and (g) mortality among disable member was updated to RP-2000 Disabled Mortality Table, 90% for male rates and 100% for female rates, set back five years is used for the period after disability retirement.

**NORTHWESTERN LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 12 - DEFINED BENEFIT PENSION PLANS - (Continued)

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

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

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

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

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

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
District's proportionate share of the net pension liability	\$ 6,237,794	\$ 4,711,546	\$ 3,434,014

**NORTHWESTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 12 - DEFINED BENEFIT PENSION PLANS - (Continued)

Actuarial Assumptions - STRS

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

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

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

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

The 10 year expected real rate of return on pension plan investments was determined by STRS' investment consultant by developing best estimates of expected future real rates of return for each major asset class. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized as follows:

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

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

**NORTHWESTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 12 - DEFINED BENEFIT PENSION PLANS - (Continued)

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

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

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
District's proportionate share of the net pension liability	\$ 29,848,192	\$ 22,460,510	\$ 16,228,564

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

NOTE 13 - POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

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

**NORTHWESTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

NOTE 13 - POSTEMPLOYMENT BENEFITS - (Continued)

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

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required basic benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. For fiscal year 2017, none of the employer contribution was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. For fiscal year 2017, this amount was \$23,500. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2017, the District's surcharge obligation was \$38,587.

The District's contributions for health care for the fiscal years ended June 30, 2017, 2016, and 2015 were \$38,587, \$33,489, and \$50,201, respectively. The fiscal year 2017 amount has been reported as pension and postemployment benefits payable. The full amount has been contributed for fiscal years 2016 and 2015.

B. State Teachers Retirement System

Plan Description – The District participates in the cost-sharing multiple-employer defined benefit Health Plan administered by the State Teachers Retirement System of Ohio (STRS) for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS. Ohio law authorizes STRS to offer this plan. Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. The Plan is included in the report of STRS which can be obtained by visiting www.strsoh.org 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 2017, STRS Ohio did not allocate any employer contributions to the Health Care Stabilization Fund. The District's did not make any contributions for health care for the fiscal years ended June 30, 2017, 2016 and 2015.

**NORTHWESTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

NOTE 14 - 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.

B. Insurance Benefits

The 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 15 - JOINTLY GOVERNED ORGANIZATIONS AND INSURANCE PURCHASING POOL

A. Jointly Governed Organizations

Miami Valley Educational Computer Association - The 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.

The governing board of MVECA consists of three Superintendents and three Treasurers of member Districts, with three of the four Superintendents and all three Treasurers elected by a majority vote of all member Districts except the Greene County Career Center. The fourth Superintendent is from the Greene County Career Center. The District paid MVECA \$119,623 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 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 District paid \$1,777,723 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.

**NORTHWESTERN LOCAL SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

**NOTE 15 - JOINTLY GOVERNED ORGANIZATIONS AND INSURANCE PURCHASING POOL -
(Continued)**

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.

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 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.

B. Insurance Purchasing Pool

The 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 Districts pay an enrollment fee to the GRP to cover the costs of administering the plan. The District paid \$1,045 during 2017 to participate in the pool.

**NORTHWESTERN LOCAL SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

NOTE 16 - CONTINGENCIES

A. Grants

The District receives significant financial assistance from numerous federal, State and local agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the District. However, in the opinion of management, any such disallowed claims will not have a material effect on the financial position of the District.

B. Litigation

The District is involved in no material litigation as either plaintiff or defendant.

C. Foundation Funding

School District foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. The Ohio Department of Education (ODE) is legislatively required to adjust/reconcile funding as enrollment information is updated by schools throughout the State, which can extend past the fiscal year end. As of the date of this report, additional ODE adjustments for fiscal year 2017 are not finalized. As a result, the impact of future FTE adjustments on the fiscal year 2017 financial statements is not determinable, at this time. Management believes this may result in either an additional receivable to, or a liability of, the District.

NOTE 17 - BUDGETARY BASIS OF ACCOUNTING

While reporting financial position, results of operations, and changes in fund balance 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 and disbursements.

The statement of revenue, expenditures and changes in fund balance - budget and actual (non-GAAP budgetary basis) presented for the general fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the GAAP basis are that:

- (a) Revenues and other financing sources are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- (b) Expenditures and other financing uses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);
- (c) In order to determine compliance with Ohio law, and to reserve that portion of the applicable appropriation, total outstanding encumbrances (budget basis) are recorded as the equivalent of an expenditure, as opposed to assigned or committed fund balance for that portion of outstanding encumbrances not already recognized as an account payable (GAAP basis);
- (d) Advances-in and advances-out are operating transactions (budget basis) as opposed to balance sheet transactions (GAAP basis); and,

**NORTHWESTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 17 - BUDGETARY BASIS OF ACCOUNTING - (Continued)

- (e) Some funds are included in the general fund (GAAP basis), but have separate legally adopted budgets (budget basis).

The adjustments necessary to convert the results of operations for the year on the budget basis to the GAAP basis for the general fund is as follows:

Net Change in Fund Balance

	<u>General fund</u>
Budget basis	\$ 418,271
Net adjustment for revenue accruals	(238,257)
Net adjustment for expenditure accruals	(116,834)
Net adjustment for other sources/uses	104,596
Funds budgeted elsewhere	16,086
Adjustment for encumbrances	36,887
GAAP basis	\$ 220,749

Certain funds that are legally budgeted in separate special revenue funds are considered part of the general fund on a GAAP basis. This includes the public school support fund and the internal service fund.

NOTE 18 - SET-ASIDES

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

**NORTHWESTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 18 - SET-ASIDES - (Continued)

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

	<u>Capital Improvements</u>
Set-aside balance June 30, 2016	\$ -
Current year set-aside requirement	304,695
Contributions in excess of the current fiscal year set-aside requirement	-
Current year qualifying expenditures	(100,723)
Excess qualified expenditures from prior years	-
Current year offsets	(205,513)
Waiver granted by ODE	-
Prior year offset from bond proceeds	-
Total	<u>\$ (1,541)</u>
Balance carried forward to fiscal year 2018	<u>\$ -</u>
Set-aside balance June 30, 2017	<u>\$ -</u>

During a prior fiscal year, the District issued \$29,625,000 in capital related school improvement bonds. These proceeds may be used to reduce the capital improvements set-aside amount to below zero for future years. The amount presented for prior year offset from bond proceeds is limited to an amount needed to reduce the capital improvements set-aside balance to \$0. The District is responsible for tracking the amount of bond proceeds that may be used as an offset in future periods, which was \$29,346,519 at June 30, 2017.

NOTE 19 - OTHER COMMITMENTS

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

<u>Fund</u>	<u>Year-End Encumbrances</u>
General fund	<u>\$ 36,887</u>

**NORTHWESTERN LOCAL SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

NOTE 20 - TAX ABATEMENT AGREEMENTS ENTERED INTO BY OTHER GOVERNMENTS

Other governments entered into a property tax abatement agreement with a property owner under an Enterprise Zone Agreements (“EZAs”) with the taxing districts of the District. The EZA is a directive incentive tax exemption program benefiting property owners who renovate or construct new buildings. Under this program, the other government designated areas to encourage revitalization of the existing housing stock and the development of new structures. Within the taxing districts of the District, Clark County has entered into such an agreement. Under this agreement, the School District’s property taxes were reduced by \$7,143. The District is not receiving any amounts from these other governments in association with the forgone property tax revenue.

NOTE 21 – SUBSEQUENT EVENTS

On December 5, 2017 the District entered into a lease purchase agreement with a financial institution to provide funding for improvements to the District’s athletic facilities. The amount to be financed under this agreement will total \$2,025,000 at an annual interest rate of 2.51 percent. Principal payments are scheduled for December 1st of each year starting in 2018 and ceasing in 2029.

REQUIRED SUPPLEMENTARY INFORMATION

**NORTHWESTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY, OHIO**

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF
THE NET PENSION LIABILITY
SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS) OF OHIO

LAST FOUR FISCAL YEARS

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
District's proportion of the net pension liability	0.06437350%	0.06465960%	0.06688600%	0.06688600%
District's proportionate share of the net pension liability	\$ 4,711,546	\$ 3,689,539	\$ 3,385,062	\$ 3,977,496
District's covered payroll	\$ 2,075,021	\$ 1,946,593	\$ 1,943,579	\$ 1,947,312
District's proportionate share of the net pension liability as a percentage of its covered payroll	227.06%	189.54%	174.17%	204.26%
Plan fiduciary net position as a percentage of the total pension liability	62.98%	69.16%	71.70%	65.52%

Note: Information prior to 2014 was unavailable. Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

Amounts presented for each fiscal year were determined as of the District's measurement date which is the prior year-end.

**NORTHWESTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY, OHIO**

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF
THE NET PENSION LIABILITY
STATE TEACHERS RETIREMENT SYSTEM (STRS) OF OHIO

LAST FOUR FISCAL YEARS

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
District's proportion of the net pension liability	0.06710035%	0.06480161%	0.06545559%	0.06545559%
District's proportionate share of the net pension liability	\$ 22,460,510	\$ 17,909,270	\$ 15,921,065	\$ 18,965,068
District's covered payroll	\$ 7,114,214	\$ 6,760,964	\$ 6,687,754	\$ 6,701,808
District's proportionate share of the net pension liability as a percentage of its covered payroll	315.71%	264.89%	238.06%	282.98%
Plan fiduciary net position as a percentage of the total pension liability	66.80%	72.10%	74.70%	69.30%

Note: Information prior to 2014 was unavailable. Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

Amounts presented for each fiscal year were determined as of the District's measurement date which is the prior year-end.

**NORTHWESTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY, OHIO**

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF DISTRICT CONTRIBUTIONS
SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS) OF OHIO

	LAST TEN FISCAL YEARS			
	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 328,572	\$ 290,503	\$ 256,561	\$ 269,380
Contributions in relation to the contractually required contribution	<u>(328,572)</u>	<u>(290,503)</u>	<u>(256,561)</u>	<u>(269,380)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered payroll	\$ 2,346,943	\$ 2,075,021	\$ 1,946,593	\$ 1,943,579
Contributions as a percentage of covered payroll	14.00%	14.00%	13.18%	13.86%

<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
\$ 269,508	\$ 341,123	\$ 261,032	\$ 346,598	\$ 210,247	\$ 180,304
<u>(269,508)</u>	<u>(341,123)</u>	<u>(261,032)</u>	<u>(346,598)</u>	<u>(210,247)</u>	<u>(180,304)</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 1,947,312	\$ 2,536,230	\$ 2,076,627	\$ 2,559,808	\$ 2,136,657	\$ 1,836,090
13.84%	13.45%	12.57%	13.54%	9.84%	9.82%

**NORTHWESTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY, OHIO**

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF DISTRICT CONTRIBUTIONS
STATE TEACHERS RETIREMENT SYSTEM (STRS) OF OHIO

	LAST TEN FISCAL YEARS			
	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 1,016,415	\$ 995,990	\$ 946,535	\$ 869,408
Contributions in relation to the contractually required contribution	<u>(1,016,415)</u>	<u>(995,990)</u>	<u>(946,535)</u>	<u>(869,408)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered payroll	\$ 7,260,107	\$ 7,114,214	\$ 6,760,964	\$ 6,687,754
Contributions as a percentage of covered payroll	14.00%	14.00%	14.00%	13.00%

<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
\$ 871,235	\$ 917,548	\$ 882,244	\$ 919,652	\$ 893,140	\$ 886,903
<u>(871,235)</u>	<u>(917,548)</u>	<u>(882,244)</u>	<u>(919,652)</u>	<u>(893,140)</u>	<u>(886,903)</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 6,701,808	\$ 7,058,062	\$ 6,786,492	\$ 7,074,246	\$ 6,870,308	\$ 6,822,331
13.00%	13.00%	13.00%	13.00%	13.00%	13.00%

**NORTHWESTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY, OHIO**

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS) OF OHIO

Changes in benefit terms: There were no changes in benefit terms from the amounts reported for fiscal years 2014-2017.

Changes in assumptions: There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal years 2014-2016. For fiscal year 2017, the following changes of assumptions affected the total pension liability since the prior measurement date: (a) the assumed rate of inflation was reduced from 3.25% to 3.00%, (b) payroll growth assumption was reduced from 4.00% to 3.50%, (c) assumed real wage growth was reduced from 0.75% to 0.50%, (d) Rates of withdrawal, retirement and disability were updated to reflect recent experience, (e) mortality among active members was updated to RP-2014 Blue Collar Mortality Table with fully generational projection and a five year age set-back for both males and females, (f) mortality among service retired members, and beneficiaries was updated to the following RP-2014 Blue Collar Mortality Table with fully generational projection with Scale BB, 120% of male rates, and 110% of female rates and (g) mortality among disable member was updated to RP-2000 Disabled Mortality Table, 90% for male rates and 100% for female rates, set back five years is used for the period after disability retirement.

STATE TEACHERS RETIREMENT SYSTEM (STRS) OF OHIO

Changes in benefit terms: There were no changes in benefit terms from the amounts reported for fiscal years 2014-2017.

Changes in assumptions: There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal years 2014-2017. See the notes to the basic financial statements for the methods and assumptions in this calculation.

Northwestern Local School District
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2017

<u>Federal Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass Through Identifying Number</u>	<u>Federal Receipts</u>	<u>Federal Expenditures</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		\$ 56,245	\$ 56,245
National School Lunch Program	10.555		<u>301,125</u>	<u>301,125</u>
<i>Total Child Nutrition Cluster</i>			<u>357,370</u>	<u>357,370</u>
Total U.S. Department of Agriculture			<u>357,370</u>	<u>357,370</u>
<u>U.S. DEPARTMENT OF EDUCATION</u>				
<i>Passed Through Ohio Department of Education</i>				
Title I, Part A Grants to Local Education Agencies	84.010	S010A150035	331,579	324,001
<i>Special Education Cluster:</i>				
Special Education - Grants to States	84.027	H027A150111	371,466	371,470
Special Education - Preschool Grants	84.173		<u>10,598</u>	<u>10,598</u>
<i>Special Education Cluster Total</i>			382,064	382,068
Supporting Effective Instruction State Grants	84.367	S367A150034	<u>56,371</u>	<u>56,407</u>
Total U.S. Department of Education			<u>770,014</u>	<u>762,476</u>
TOTAL FEDERAL AWARD EXPENDITURES			<u>\$ 1,127,384</u>	<u>\$ 1,119,846</u>

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, 2017

NOTE 1 – BASIS OF PRESENTATION

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

NOTE 3 – U.S. DEPARTMENT OF AGRICULTURE PROGRAMS

Cash receipts from the U.S. Department of Agriculture are commingled with State grants. It is assumed federal monies are expended first. At June 30, 2017, the District had no significant food commodities in inventory.

NOTE 4 – MATCHING REQUIREMENTS

Certain federal programs require the 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.

**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 *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, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 21, 2017.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a 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.

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

Compliance and Other Matters

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

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
December 21, 2017

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR
EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

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 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, 2017. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards 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 the audit requirements of Title 2 *U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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, 2017.

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 the Uniform Guidance, 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 a 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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Clark, Schaefer, Hackett & Co.

Springfield, Ohio
December 21, 2017

Section I – Summary of Auditors’ Results

Financial Statements

Type of auditors’ report issued:	Unmodified
Internal control over financial reporting:	
• Material weakness(es) identified?	None noted
• 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 2 CFR 200.516(a)?	None noted
Identification of major programs:	
<i>Special Education Cluster:</i>	
Special Education – Grants to States – CFDA #84.027	
Special Education – Preschool Grants – CFDA #84.173	
Dollar threshold to distinguish between Type A and Type B programs:	\$750,000
Auditee qualified as low-risk auditee?	Yes

Section II – Financial Statement Findings

None noted.

Section III – Federal Awards Findings and Questioned Costs

None noted.

Section IV – Summary of Prior Audit Findings and Questioned Costs

None Noted



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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
FEBRUARY 15, 2018**