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*Certified Public Accountants, A.C.*

**NORTHEASTERN LOCAL SCHOOL DISTRICT  
CLARK COUNTY  
Single Audit  
For the Fiscal Year Ended June 30, 2017**

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# Dave Yost • Auditor of State

Board of Education  
Northeastern Local School District  
1414 Bowman Road  
Springfield, Ohio 45502

We have reviewed the *Independent Auditor's Report* of the Northeastern Local School District, Clark County, prepared by Perry & Associates, Certified Public Accountants, A.C., 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 Northeastern Local School District is responsible for compliance with these laws and regulations.

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

Dave Yost  
Auditor of State

April 6, 2018

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**NORTHEASTERN LOCAL SCHOOL DISTRICT  
CLARK COUNTY**

**TABLE OF CONTENTS**

<b>TITLE</b>	<b>PAGE</b>
Independent Auditor's Report.....	1
Management's Discussion and Analysis .....	4
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Position .....	15
Statement of Activities .....	16
Fund Financial Statements:	
Balance Sheet-Governmental Funds.....	17
Reconciliation of Total Governmental Fund Balances to Net Position of Governmental Activities .....	18
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds .....	19
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities.....	20
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget (Non-GAAP Basis) and Actual - General Fund .....	21
Statement of Net Position – Fiduciary Funds.....	22
Statement of Changes in Fund Net Position - Fiduciary.....	23
Notes to the Basic Financial Statements.....	24
Required Supplementary Information:	
Schedule of the Proportionate Share of Net Pension Liability – School Employees Retirement System of Ohio .....	61
Schedule of the Proportionate Share of Net Pension Liability – State Teachers Retirement System of Ohio.....	62
Schedule of Contributions – School Employees Retirement System of Ohio .....	63
Schedule of Contributions – State Teachers Retirement System of Ohio.....	64
Schedule of Receipts and Expenditures of Federal Awards .....	65

**NORTHEASTERN LOCAL SCHOOL DISTRICT  
CLARK COUNTY**

**TABLE OF CONTENTS**

<b>TITLE</b>	<b>PAGE</b>
Notes to the Schedule of Receipts and Expenditures of Federal Awards.....	66
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i> .....	67
Independent Auditor's Report on Compliance with Requirements Applicable to the Major Federal Program and on Internal Control Over Compliance Required by the Uniform Guidance .....	69
Schedule of Audit Findings – 2 CFR § 200.515 .....	71
Corrective Action Plan .....	74



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## INDEPENDENT AUDITOR'S REPORT

February 23, 2018

Northeastern Local School District  
Clark County  
1414 Bowman Road  
Springfield, Ohio 45502

To the Board of Education:

### ***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 **Northeastern Local School District**, Clark County, Ohio (the School District), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements as listed in the table of contents.

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

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

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

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

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

We believe the audit evidence we obtained is sufficient and appropriate to support our audit opinions.

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**Opinion**

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 Northeastern Local School District, Clark County, Ohio, as of June 30, 2017, and the respective changes in financial position and the budgetary comparison for the General Fund thereof for the year then ended in accordance with the 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 this presentation to include *Management's discussion and analysis* and schedules of net pension liabilities and pension contributions listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, consisting of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, to the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not opine or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to opine or provide any other assurance.

*Supplementary and Other Information*

Our audit was conducted to opine on the School District's basic financial statements taken as a whole.

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

The schedule is management's responsibility, and derives from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. We subjected the schedule to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling the schedule directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves in accordance with auditing standards generally accepted in the United States of America. In our opinion, this schedule is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



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

In accordance with *Government Auditing Standards*, we have also issued our report dated February 23, 2018, on our consideration of the School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School District's internal control over financial reporting and compliance.



**Perry and Associates**  
Certified Public Accountants, A.C.  
Marietta, Ohio

Northeastern Local School District  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2017  
(Unaudited)

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

### **Financial Highlights**

Key financial highlights for 2017 are as follows:

In total, net position increased \$1,041,745, which represents a 4.55 percent increase from 2016.

General revenues accounted for \$32,220,501 in revenue or 86.20 percent of all revenues. Program specific revenues in the form of charges for services, operating grants and contributions, and capital grants and contributions accounted for \$5,157,776 or 13.80 percent of total revenues of \$37,378,277.

Total assets of governmental activities increased by \$2,111,580 as current assets increased by \$2,652,288, this was mostly due to the increase in income tax receivable, and capital assets decreased by \$540,708.

The governmental activities of the School District had \$36,336,532 in expenses; only \$5,157,776 of these expenses were offset by program specific charges for services, grants or contributions. General revenues (primarily taxes) of \$32,220,501 were adequate to provide for these programs.

Among major funds, the General Fund had \$ 33,532,753 in revenues and other financing sources and \$30,961,891 in expenditures and other financing uses. The General Fund's balance increased \$2,570,862 over 2016. This increase is partially due to an increase in property taxes and the fact that we started receiving income taxes in fiscal year 2016 due to the passage of a 1% earned income tax in May of 2015.

### **Using this General Accepted Accounting Principles Report (GAAP)**

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Northeastern Local School 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 School District, presenting both an aggregate view of the School 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 School District's most significant funds with all other non-major funds presented in total in one column. In the case of Northeastern Local School District, the General Fund is by far the most significant fund.

## **Reporting the School 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 School District to provide programs and activities, the view of the School 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 and liabilities using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

In the Statement of Net position and the Statement of Activities, the School District reports governmental activities. Governmental activities are the activities where most of the School District's programs and services are reported including, but not limited to, instruction, support services, operation and maintenance of plant, pupil transportation and extracurricular activities. The School District does not have any business-type activities.

## **Reporting the School District's Most Significant Funds**

### Fund Financial Statements

The analysis of the School District's major funds begins on page 10. Fund financial reports provide detailed information about the School District's major funds. The School District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the School District's most significant funds. The School District's major governmental funds are the General Fund and the Permanent Improvement Capital Projects Fund.

### Governmental Funds

Most of the School 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 the 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 statements provide a detailed short-term view of the School 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 financial statements.

Northeastern Local School District  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2017  
(Unaudited)

**The School District as a Whole**

Recall that the Statement of Net position provides the perspective of the School District as a whole. Table 1 provides a summary of the School District's net position for 2017 compared to 2016.

**Table 1  
Net Position**

	<u>2016</u>	<u>2017</u>
<b>Assets</b>		
Current and Other Assets	\$22,803,854	\$25,456,142
Capital Assets	15,433,034	14,892,326
Total Assets	<u>38,236,888</u>	<u>40,348,468</u>
 <b>Deferred Outflows of Resources</b>		
Pension	<u>4,357,273</u>	<u>9,866,689</u>
 <b>Liabilities</b>		
Long-Term Liabilities Other Than Pension	2,578,923	2,402,650
Long Term Pension Liability	45,090,121	54,824,117
Other Liabilities	3,988,865	3,825,807
Total Liabilities	<u>51,657,909</u>	<u>61,052,574</u>
 <b>Deferred Inflows of Resources</b>		
Pension	3,919,807	898,581
Other Deferred Inflows of Resources	9,922,141	10,127,953
Total Deferred Inflows of Resources	<u>13,841,948</u>	<u>11,026,534</u>
 <b>Net Assets</b>		
Net Investment in Capital Assets	14,046,777	13,974,911
Restricted	1,647,781	1,387,817
Unrestricted (Deficit)	<u>(38,600,254)</u>	<u>(37,226,679)</u>
Total Net Position	<u>\$(22,905,696)</u>	<u>\$(21,863,951)</u>

During 2015, the Northeastern Local School District adopted GASB Statement 68, "Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement 27," 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 Northeastern Local School 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

Northeastern Local School District  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2017  
(Unaudited)

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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.

Under the new standards required by GASB 68, the net pension liability equals the Northeastern Local School 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 Northeastern Local School 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 Northeastern Local School 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.

As a result of implementing GASB 68, the Northeastern Local School District is reporting a net pension liability and deferred inflows/outflows of resources related to pension on the accrual basis of accounting.

Current assets increased by \$2,652,288, this was mostly due to the increase in income tax receivable, and capital assets decreased by \$540,708. Unrestricted net position, the part of net position that can be used to finance day-to-day activities without constraints established by grants or legal requirements of the School District increased by \$711,386. This increase is partially due to an increase in property taxes and the fact that we started receiving income taxes in fiscal year 2016 due to the passage of a 1% earned income tax in May of 2015.

Northeastern Local School District  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2017  
(Unaudited)

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In order to further understand what makes up the changes in net position for the current year, the following table gives readers further details regarding the results of activities for 2017 and 2016.

**Table 2**  
**Changes in Net Position**

	<u>2016</u>	<u>2017</u>
<b>Revenues</b>		
Program Revenues:		
Charges for Services	\$3,153,271	\$3,373,455
Operating Grants and Contributions	2,057,511	1,784,321
General Revenues		
Property Taxes	13,068,271	12,101,011
Income Taxes	815,967	4,302,786
Grants and Entitlements	15,306,117	15,507,417
Other	225,280	182,067
Total Revenues	<u>34,626,417</u>	<u>37,378,277</u>
<b>Program Expenses</b>		
Instruction	19,662,041	21,784,018
Support Services:		
Pupils and Instructional Staff	3,060,407	3,322,827
Board of Education, Administration, and Fiscal	3,265,408	3,511,618
Operation and Maintenance of Plant	2,310,274	2,806,160
Pupil Transportation	1,961,171	2,279,703
Central	25,124	44,301
Operation of Non-Instructional Services	1,400,503	1,460,389
Extracurricular Activities	1,025,889	1,092,087
Interest and Fiscal Charges	51,229	35,429
Total Expenses	<u>32,762,046</u>	<u>36,336,532</u>
Increase (Decrease) in Net Position	<u>\$1,864,371</u>	<u>\$1,041,745</u>

Northeastern Local School District  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2017  
(Unaudited)

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**Governmental Activities**

The unique nature of property taxes in Ohio creates the need to routinely seek voter approval for the School District operations. Property taxes made up 32.37 percent of revenues for governmental activities for the Northeastern Local School District for fiscal year 2017.

Due to the fact that permanent improvement needs never end; the board decided to place a 1 mill continuous permanent improvement levy on the ballot in November, 2006. This levy attempt failed. The board voted to place the permanent improvement levy back on the ballot in May, 2007. However, upon learning that May was considered a Special election and the cost to the District could be \$33,000 or more to place the issue on the ballot, the board voted to remove the issue in May and place it on the ballot in November, 2007. November, 2007 is not a special election and collection would still begin in January, 2008. However, the levy was again defeated in November, 2007. Additionally, the levy failed in March, 2008 and August, 2008. The board voted to place it back on the ballot again in November, 2008. After a long hard battle, the board was able to get voter approval for the 1 mill continuous permanent improvement levy. This also set the stage for the District to qualify for approval of a project to be cofounded by the Ohio School Facilities Commission. On August 24, 2009, the district was informed that their OSFC number had arrived and the district had one year to pass its local funding for a building project. The district put on a combination ¼% income tax and 7.572 mill bond issue on each of the November of 2009 and February of 2012 elections. The issues failed both times. Then the district regrouped, got more community input, changed its plan to better suit the desires of the community. Upon doing so, the district came back to the voters on the August 3, 2012 ballot with a 7.876 mill bond issue shortened to 28 years rather than 37 and no income tax. The issue still failed, which caused the district to become a lapsed district with no guarantee of OSFC co-funding in the future.

During fiscal year 2017, the School District became eligible for OSFC co-funding again. The district conducted a survey of the residents to obtain information on what type of configuration they would support at the polls. The Board ultimately decided to put a 7.93 mill bond issue and .5 mill maintenance levy on the ballot on November 7<sup>th</sup>, 2017 to build two PreK-12 buildings/campuses, with one on each side of the School District. The levy failed to pass by 368 votes.

Instruction comprises 58.13 percent of district expenses. Support services expenses make up 37.89 percent of the expenses.

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State entitlements.

**Table 3**

	<b>Net Cost of Services 2016</b>	<b>Net Cost of Services 2017</b>
Instruction	\$16,341,238	\$18,124,029
Support Services:		
Pupils and Instructional Staff	2,836,788	3,171,950
Board of Education, Administration, and Fiscal	3,265,408	3,511,618
Operation and Maintenance of Plant	2,310,274	2,806,160
Pupil Transportation	1,961,171	2,279,703



Northeastern Local School District  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2017  
(Unaudited)

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Central	25,124	44,301
Operation of Non-Instructional Services	45,947	316,702
Extracurricular Activities	714,085	888,864
Interest and Fiscal Charges	51,229	35,429
Total Expenses	\$27,551,264	\$31,178,756

Instruction expenses include activities directly dealing with the teaching of pupils and the interaction between teacher and pupil.

Pupils and instructional staff include the activities involved with assisting staff with the content and process of teaching pupils.

Board of education, administration, fiscal and business includes expenses associated with administrative and financial supervision of the District.

Operation and maintenance of plant activities involve keeping the school grounds, buildings, and equipment in an effective working condition.

Pupil transportation includes activities involved with the conveyance of students to and from school, as well as to and from school activities, as provided by state law.

Operation of non-instruction services includes the preparation, delivery, and servicing of lunches, snacks and other incidental meals to students and school staff in connection with school activities.

Extracurricular activities includes expenses related to student activities provided by the School District which are designed to provide opportunities for pupils to participate in school events, public events, or a combination of these for the purposes of motivation, enjoyment and skill improvement.

Interest and fiscal charges involve the transactions associated with the payment of interest and other related charges to debt of the School District.

The dependence upon tax revenues is apparent. Almost 87 percent of instruction activities are supported through taxes and other general revenues; for all activities general revenue support is approximately 82 percent. The community, as a whole, is the primary support for the Northeastern Local School District.

**The School District's Funds**

Information about the School District's major funds starts on page 17. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues and other financing sources of \$37,145,460 and expenditures and other financing uses of \$34,819,980. The net change in fund balance for the year was most significant in the General Fund, an increase of \$2,570,862. This increase is partially due to an increase in property taxes and the fact that we started receiving income taxes in fiscal year 2016 due to the passage of a 1% earned income tax in May of 2015. Currently, continued phasing out of personal property taxes is being offset by the hold harmless revenue being contributed by the state. Our bottom line is also only being assisted currently by the passage of the permanent improvement levy in November of 2008. Some expenditures which previously had to be absorbed by the General Fund are now being paid from the Permanent Improvement Fund. However, due to using the Permanent Improvement fund more, we are now seeing its Fund balance begin to decline more rapidly than before.



Northeastern Local School District  
 Management's Discussion and Analysis  
 For the Fiscal Year Ended June 30, 2017  
 (Unaudited)

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**General Fund Budgeting Highlights**

The School 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 the 2017 fiscal year, the School District amended its General Fund budget several times, which resulted in appropriations decreasing \$1,099,559. The School District uses site-based budgeting and the budgeting systems are designed to tightly control total site budgets but provide flexibility for site management. Prior to year-end, the School District requested an amended certificate of estimated resources that reflected actual revenue for the fiscal year and passed appropriations to match expenditures plus encumbrances.

For the General Fund, budget basis revenue and other financing sources was \$32,365,813; \$342,139 above the original budgeted estimates of \$32,023,674. This difference was mainly due to an increase in estimated revenue from property and income taxes.

**Capital Assets**

At the end of the 2017 fiscal year, the School District had \$14,892,326 invested in land, buildings, furniture and equipment, and vehicles. Table 4 shows fiscal 2017 balances compared to 2016.

**Table 4**  
**Capital Assets (Net of Depreciation) at June 30, 2017**

	2016	2017
Land	\$268,349	\$268,349
Land Improvement	285,401	284,679
Buildings and Improvements	12,232,046	11,735,783
Furniture and Equipment	1,839,993	1,805,031
Vehicles	807,247	798,484
Total Expenses	\$15,433,034	\$14,892,326

Overall capital assets decreased \$540,708 from fiscal year 2016 to fiscal year 2017. This is the result of the increase in accumulated depreciation exceeding the investment in new assets.

**Debt Administration**

On September 15, 2005, the Northeastern Local School District issued \$3,765,000 of General Obligation refunding bonds to provide resources to purchase United States Government Securities that were placed in an irrevocable trust for the purpose of generating resources for all future debt service payments of \$3,765,000 of General Obligation bonds. The School District used the new bonds, previously funded debt service payments, plus \$339,813, to defease the outstanding liability. The refunded portion of the 1996 bonds were called at the first call date of December 1, 2007. As a result, the in-substance defeasance is considered to be defeased and the liability has been removed from the statement of net position.

Northeastern Local School District  
 Management's Discussion and Analysis  
 For the Fiscal Year Ended June 30, 2017  
 (Unaudited)

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In September 2005, the School District entered into an Escrow Trust Agreement with the Bank of New York. The agreement required that the School District deposit \$4,023,579 into an irrevocable trust with the bank for the payment to final maturity from the 1996 General Obligation Bonds. The funds deposited, per the agreement, purchased U.S. Government Securities in substitution of the general obligations of the School District. The funds deposited, together with interest earned thereon, shall be sufficient to pay semi-annual principal and interest payments, thus providing an in-substance defeasance. The (in-substance) defeasance has occurred for the following General Obligation bonds:

Original Amount	Amount Defeased	Outstanding Amount at 6/30/13
\$5,300,000	\$3,765,000	\$0

**Current Financial Issues and Concerns**

The cash fund balance in the general fund increased this year by \$2,570,662. This increase is partially due to an increase in property taxes and the fact that we started receiving income taxes in fiscal year 2016 due to the passage of a 1% earned income tax in May of 2015.

We are currently overcrowded in the majority of our buildings. The board and administration have worked very hard to ascertain the consensus of our constituents prior to again placing a bond issue for construction on the November, 2008 ballot. An issue to build two new middle schools was first placed on the ballot in November, 2000. It failed at that time. It has been placed on the ballot four times since and has failed all four times. The board and administration feel that this is not an indication of voter disapproval toward construction, but more a barometer of the economy. In an effort to ascertain the mind set of our constituents, the board and administration made a commitment to work with the community at various community meetings held across the District. In addition to exploring public opinion as to what type of building(s) should be constructed, major concerns were raised as to whether the general public understands how schools are funded in the state of Ohio. Also, whether the public understands the fact that the administration is doing its best to get the greatest student education using the least amount of public resources. With this in mind, the board and administration made a commitment to a series of "public school engagement dialogue" meetings that began in fiscal year 2006. These meetings have been intended to bring constituents in and engage them in a process of learning how public schools are funded in Ohio and why there is a shortfall of dollars to educate our students. This commitment continues as the district's board of education and administration continues to hold meetings to inform our constituents.

As mentioned previously, since the one mill continuous Permanent Improvement Levy was approved, the School District administration and board continued to work with the Ohio School Facilities Commission (OSFC) to introduce a master plan that would be accepted by the voters. The OSFC requires school districts to have at least a one half mill Continuous Permanent Improvement Levy on the books to support new schools should they become a reality. Despite hours upon hours of time invested educating the public, the board and administration were unsuccessful in passing a bond issue for new schools.

Prior to becoming a lapsed district, we were 42% state funded and 58% locally funded as far as the Ohio School Facilities Commission was concerned. The District received notification that state funds could be available as early as November, 2009. The District needed to raise funds for its 58% portion of the master plan. The Bond Issue attempts were unsuccessful.

The School District tried a new approach for operating funds in November 2012 by putting a 1% earned income tax on the ballot. The issue failed, and the district has tried three additional times since then and the results changed on May 5<sup>th</sup>, 2015. The voters approved a 1% Earned Income Tax for a period of 10 years. Collections began in January 2016. This levy is expected to bring in \$4,100,000 in revenue each year for 10 years.

Northeastern Local School District  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2017  
(Unaudited)

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As mentioned earlier, during fiscal year 2017, the School District became eligible for OSFC co-funding again. The School District conducted a survey of the residents to obtain information on what type of configuration they would support at the polls. The Board ultimately decided to put a 7.93 mill bond issue and .5 mill maintenance levy on the ballot on November 7<sup>th</sup>, 2017 to build two PreK-12 buildings/campuses, with one on each side of the district. The levy failed to pass by 368 votes.

Externally, the State of Ohio was found by the Ohio Supreme Court (DeRolph case) in March 1997 to be operating an unconstitutional system of school funding, one that was neither "adequate" nor "equitable." Since 1997, the State has directed its tax revenue growth toward school districts with little property tax wealth.

Toward the end of the 2005 fiscal year, a funding plan was presented by the state that phases out certain areas of local tax revenue. The impact on the School District and its tax payers for future years has been quite significant.

During fiscal year 2006, the state began its planned phase out of personal tangible property tax. School Districts were to be held harmless through a fixed rate adjustment, resulting from commercial activity tax (CAT) revenue, through fiscal year 2014. After that period, a phase out was to begin until the revenue was to be totally phased out in 2018. The phase out has now been accelerated. The last payment the district received was during fiscal year 2017.

Other items of importance that occurred during the 2017 fiscal year are as follows:

- The School District approved a one year Capital Improvement Plan in July 2016. The School District continues to update and utilize the plan.
- In July 2016, the district changed their requisition system to Strategic Solutions.
- In January 2017, the Board approved a 7 year agreement with Pepsi that runs from 8/1/16 to 7/31/23.
- The School District approved a change in their Natural Gas Supply Program from Constellation to Direct Energy, but continues to utilize the EPC for the consortium for the program. The contract is from July 2017 to June 2020.
- There was a 2.5% change on the base salary for certified employees and a 2% change on the base salary for classified employees during FY 17. This was the second increase on the base for staff in several years.
- The School District had no increase in medical or vision insurance, only a 6% increase in dental insurance for FY 17.
- The School District Finance Committee, made up of the Superintendent, Treasurer, administrators, community members and parents, as well as one board member, continued to promote fiscal wellness in the district and to ascertain thoughts and ideas on what the community would like to see in the future with cuts and spending.
- The School District changed their Interscholastic Sports and Activity Pay-to-Participate Policy during fiscal year 2015 to state that school fees must be current in order to pay to participate in extracurricular activities. The School District continued with the elimination of drug testing costs from the general fund, limited School District professional development costs, and limited general fund field trips.
- A \$451,000 Science Curriculum Adoption was approved by the Board in May 2017.
- The Board continues to operate a virtual school on and off-campus. This was done to reach some students who otherwise may drop out of school and/or just need a few credits to graduate.

Northeastern Local School District  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2017  
(Unaudited)

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Some of these students prefer not to attend school full-time and prefer less structure than a classroom environment.

- On June 23, 2017, the Second District Court of Appeals ruled in favor of Northeastern Local Schools on appeal regarding a lawsuit filed by an ex-employee, saving the district a minimum of \$50,000.

The Board members of the School District continue to be extremely concerned about the school funding issues. The local superintendents and treasurers meet with the local legislators on a monthly basis. They continually work toward goals to raise awareness regarding the school funding crisis in the State of Ohio. They continue to participate in grass roots initiatives to improve public educational funding in the state of Ohio.

Information regarding the School District's initiatives can be found on the District's website, <http://www.nelsd.org>. This has been done in an effort to further communicate with our constituents.

In conclusion, the Northeastern Local School District has committed itself to financial excellence for many years. The School District's system of financial planning, budgeting, and internal financial controls are highly regarded. It becomes increasingly difficult to deliver an excellent education with the tight economic times, and the continual eroding of the personal property tax base in the District. However, we have faith that our students will become a top priority with the legislature and their ongoing school funding issues. The School District plans to continue its sound fiscal management to meet the challenges of the future.

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

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have questions about this report or need additional financial information, please contact Pam Mustovich, Interim Treasurer and Interim Chief Fiscal Officer at Northeastern Local School District, 1414 Bowman Road, Springfield, Ohio 45502 or email at [pammustovich@nelsd.org](mailto:pammustovich@nelsd.org).

**NORTHEASTERN LOCAL SCHOOL DISTRICT  
CLARK COUNTY**

**STATEMENT OF NET POSITION  
JUNE 30, 2017**

	<b>Governmental Activities</b>
<b>Assets:</b>	
Equity in Pooled Cash and Cash Equivalents	\$ 9,787,044
Cash and Cash Equivalents in Segregated Accounts	10,000
Cash and Cash Equivalents with Fiscal Agents	11,764
Accrued Interest Receivable	11,125
Materials and Supplies Inventory	95,545
Accounts Receivable	61,801
Intergovernmental Receivable	335,157
Prepaid Items	9,928
Property Taxes Receivable	13,076,343
Income Tax Receivable	2,057,435
Capital Assets, net	14,892,326
<i>Total Assets</i>	40,348,468
<b>Deferred Outflows of Resources:</b>	
Pension	9,866,689
<b>Liabilities:</b>	
Accounts Payable	48,941
Accrued Wages	2,698,013
Intergovernmental Payable	810,365
Matured Bonds Payable	10,000
Matured Interest Payable	1,764
Accrued Interest Payable	2,173
Accrued Vacation Leave Payable	88,118
Compensated Absences Payable	166,433
Long-Term Liabilities:	
Due Within One Year	798,562
Due in More Than One Year:	
Net Pension Liability	54,824,117
Other Amounts Due in More Than One Year	1,604,088
<i>Total Liabilities</i>	61,052,574
<b>Deferred Inflows of Resources:</b>	
Property Taxes Levied for the Next Fiscal Year	10,079,404
Pension	898,581
Unamortized Premium on Bonds	48,549
<i>Total Deferred Inflows of Resources</i>	11,026,534
<b>Net Position:</b>	
Net Investment in Capital Assets	13,974,911
Restricted for Debt Service	903,281
Restricted for Capital Outlay	336,935
Restricted for Other Purposes	147,601
Unrestricted (Deficit)	(37,226,679)
<b>Total Net Position</b>	<b>\$ (21,863,951)</b>

*See accompanying notes to the basic financial statements*

**NORTHEASTERN LOCAL SCHOOL DISTRICT  
CLARK COUNTY**

**STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

	Program Revenues			Net (Expense) Revenue and Changes in Net Position
Expenses	Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities	
<b>Governmental Activities:</b>				
Instruction:				
Regular	\$ 15,963,650	\$ 2,457,519	\$ 68,527	\$ (13,437,604)
Special	4,410,552		985,098	(3,425,454)
Vocational	789,426		148,845	(640,581)
Student Intervention Services	2,711			(2,711)
Other	617,679			(617,679)
Support Services:				
Pupils	2,027,177		138,205	(1,888,972)
Instructional Staff	1,295,650		12,672	(1,282,978)
Board of Education	115,474			(115,474)
Administration	2,512,563			(2,512,563)
Fiscal	883,581			(883,581)
Operation and Maintenance of Plant	2,806,160			(2,806,160)
Pupil Transportation	2,279,703			(2,279,703)
Central	44,301			(44,301)
Operation of Non-Instructional Services	1,460,389	713,097	430,590	(316,702)
Extracurricular Activities	1,092,087	202,839	384	(888,864)
Interest and Fiscal Charges	35,429			(35,429)
Total Governmental Activities	<u>\$ 36,336,532</u>	<u>\$ 3,373,455</u>	<u>\$ 1,784,321</u>	<u>(31,178,756)</u>
<b>General Revenues</b>				
Grants and Entitlements not Restricted to Specific Programs				15,507,417
Gifts and Donations				59,008
Investment Earnings				67,412
Miscellaneous				182,067
Property and Other Local Taxes				12,101,011
Income Taxes				4,302,786
Rent				800
Total General Revenues				<u>32,220,501</u>
Change in Net Position				1,041,745
Net Position Beginning of Year				<u>(22,905,696)</u>
Net Position End of Year				<u>\$ (21,863,951)</u>

See accompanying notes to the basic financial statements

**NORTHEASTERN LOCAL SCHOOL DISTRICT  
CLARK COUNTY**

**BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2017**

	<u>General Fund</u>	<u>Permanent Improvement</u>	<u>All Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>ASSETS:</b>				
Current Assets:				
Equity in Pooled Cash and Cash Equivalents	\$8,392,177	\$279,506	\$1,115,361	\$9,787,044
Cash and Cash Equivalents in Segregated Accounts			10,000	10,000
Cash and Cash Equivalents with Fiscal Agents			11,764	11,764
Materials and Supplies Inventory	75,613		11,465	87,078
Accrued Interest Receivable	11,125			11,125
Accounts Receivable	61,801			61,801
Interfund Receivable	64,934			64,934
Intergovernmental Receivable	202,584		132,573	335,157
Prepaid Items	6,643		3,285	9,928
Property Taxes Receivable	12,261,074	420,533	394,736	13,076,343
Income Taxes Receivable	2,057,435			2,057,435
<i>Total Assets</i>	<u>23,133,386</u>	<u>700,039</u>	<u>1,679,184</u>	<u>25,512,609</u>
<b>LIABILITIES:</b>				
Current Liabilities:				
Accounts Payable	48,855		86	48,941
Accrued Wages	2,534,625		163,388	2,698,013
Interfund Payable			64,934	64,934
Intergovernmental Payable	784,971		25,394	810,365
Matured Bonds Payable			10,000	10,000
Matured Interest Payable			1,764	1,764
Compensated Absences Payable	159,672		6,761	166,433
<i>Total Liabilities</i>	<u>3,528,123</u>		<u>272,327</u>	<u>3,800,450</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Property Taxes Levied for the Next Fiscal Year	9,385,371	372,966	321,067	10,079,404
Delinquent Property Tax Revenue not Available	534,588	11,627	10,068	556,283
Unavailable Grant Revenues	37,972		24,098	62,070
Unavailable Income Tax Receivable	305,126			305,126
<i>Total Deferred Inflows of Resources</i>	<u>10,263,057</u>	<u>384,593</u>	<u>355,233</u>	<u>11,002,883</u>
<b>FUND BALANCES:</b>				
Nonspendable	82,256		14,750	97,006
Restricted	11,000	315,446	1,024,835	1,351,281
Assigned	1,638,696		119,061	1,757,757
Unassigned (Deficit)	7,610,254		(107,022)	7,503,232
<i>Total Fund Balances</i>	<u>9,342,206</u>	<u>315,446</u>	<u>1,051,624</u>	<u>10,709,276</u>
<i>Total Liabilities, Deferred Inflows of Resources and Fund Balances</i>	<u>\$23,133,386</u>	<u>\$700,039</u>	<u>\$1,679,184</u>	<u>\$25,512,609</u>

See accompanying notes to the basic financial statements.

**NORTHEASTERN LOCAL SCHOOL DISTRICT  
CLARK COUNTY**

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

Total Governmental Fund Balances \$10,709,276

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

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. These assets consist of:

Land	268,349	
Depreciable capital assets	33,486,121	
Accumulated depreciation	<u>(18,862,144)</u>	
Total capital assets		14,892,326

Other long-term assets are not available to pay for current-period expenditures and therefore are deferred inflows in the funds:

Delinquent Property Taxes	556,283	
Unavailable Grant Revenues	62,070	
Unavailable Income Taxes	<u>305,126</u>	
		923,479

Unamortized premiums on bonds issued are not recognized in the funds (48,549)

Federal donated commodities are not reported in the funds. 6,890

In the statement of net position, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due. 5,642

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 - Pension	9,866,689	
Deferred Inflows - Pension	(898,581)	
Net Pension Liability	<u>(54,824,117)</u>	(45,856,009)

Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:

Bonds and notes payable	(790,000)	
Compensated absences	(1,628,136)	
Capital leases	<u>(78,870)</u>	
Total liabilities		<u>(2,497,006)</u>

Net Position of Governmental Activities (\$21,863,951)

See accompanying notes to the basic financial statements



**NORTHEASTERN LOCAL SCHOOL DISTRICT  
CLARK COUNTY**

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

	<u>GENERAL FUND</u>	<u>PERMANENT IMPROVEMENT</u>	<u>All Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>REVENUES:</b>				
Property and Other Local Taxes	\$ 11,328,144	\$ 400,217	\$ 366,117	\$ 12,094,478
Income Taxes	3,997,660			3,997,660
Intergovernmental	15,334,271	66,001	1,938,956	17,339,228
Interest	67,412		1,806	69,218
Tuition and Fees	2,457,519			2,457,519
Rent	800			800
Extracurricular Activities	114,013		186,228	300,241
Gifts and Donations	32,129		26,879	59,008
Customer Sales and Services	15,391		562,257	577,648
Miscellaneous	29,376		22,106	51,482
<i>Total Revenues</i>	<u>33,376,715</u>	<u>466,218</u>	<u>3,104,349</u>	<u>36,947,282</u>
<b>EXPENDITURES:</b>				
<b>Current:</b>				
<b>Instruction:</b>				
Regular	14,523,587	303,519	71,310	14,898,416
Special	3,414,238		764,008	4,178,246
Vocational	716,210			716,210
Student Intervention Services	1,226			1,226
Other	623,295			623,295
<b>Support Services:</b>				
Pupils	1,772,141		138,019	1,910,160
Instructional Staff	1,189,784		11,004	1,200,788
Board of Education	116,524			116,524
Administration	2,308,609			2,308,609
Fiscal	833,878	7,581	7,255	848,714
Operation and Maintenance of Plant	2,501,940	249,165	4,559	2,755,664
Pupil Transportation	2,009,479	103,685		2,113,164
Central	18,888		25,816	44,704
Operation of Non-Instructional Services	67,837		1,492,233	1,560,070
Extracurricular Activities	775,378	29,243	219,954	1,024,575
<b>Debt Service:</b>				
Principal	46,572		395,000	441,572
Interest			35,738	35,738
<i>Total Expenditures</i>	<u>30,919,586</u>	<u>693,193</u>	<u>3,164,896</u>	<u>34,777,675</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>2,457,129</u>	<u>(226,975)</u>	<u>(60,547)</u>	<u>2,169,607</u>
<b>OTHER FINANCING SOURCES:</b>				
Transfers In			42,305	42,305
Proceeds from Sale of Capital Assets	165			165
Refund of Prior Year Expenditures	155,873			155,873
Transfers Out	(42,305)			(42,305)
<i>Total Other Financing Sources</i>	<u>113,733</u>		<u>42,305</u>	<u>156,038</u>
<i>Net Change in Fund Balances</i>	<u>2,570,862</u>	<u>(226,975)</u>	<u>(18,242)</u>	<u>2,325,645</u>
Fund Balance at Beginning of Year	6,771,344	542,421	1,069,866	8,383,631
<i>Fund Balance at End of Year</i>	<u>\$ 9,342,206</u>	<u>\$ 315,446</u>	<u>\$ 1,051,624</u>	<u>\$ 10,709,276</u>

See accompanying notes to the basic financial statements

**NORTHEASTERN LOCAL SCHOOL DISTRICT  
CLARK COUNTY**

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

Net Change in Fund Balances - Total Governmental Funds \$2,325,645

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

Governmental funds report capital outlays as expenditures.

However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Fixed Asset Additions	274,301	
Current Year Depreciation	(794,968)	
Fixed Asset Deletions	20,041	(500,626)

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

Property Taxes	(5,145)	
Intergovernmental Revenue	(49,296)	
Accounts Receivable	310,126	255,685

Repayment of long-term debt is reported as an expenditure in governmental funds, but the repayment reduces long-term liabilities in the statement of Net Position. In the current year, these amounts consisted of:

Bond principal retirement	395,000	
Capital lease payments	46,572	441,572

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

Current Year Impact of Long-Term Debt Premium		24,272
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Contractually required contributions are reported as expenditures in governmental funds; however, the statement of net position reports these amounts as deferred outflows.		2,668,238
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Except for amounts reported as deferred inflows/outflows, changes in the net pension liability are reported as pension expense in the statement of activities		(4,048,013)
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In the statement of activities interest is accrued on outstanding bonds, whereas in governmental funds, interest is expensed when due.		(2,634)
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Donated commodities received and used are not recognized in the funds.		5,260
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Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds:

Compensated Absences		(127,654)
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Change in Net Position of Governmental Activities		\$1,041,745
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See accompanying notes to the basic financial statements

**Northeastern Local Schools**  
*Schedule of Revenues, Expenditures and Changes*  
*In Fund Balance - Budget (Non-GAAP Basis) and Actual*  
**GENERAL FUND**  
*For the Fiscal Year Ended June 30, 2017*

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
<b>REVENUES:</b>				
Property and Other Local Taxes	\$ 11,518,798	\$ 11,518,798	\$ 11,351,443	\$ (167,355)
Income Tax	3,095,500	3,095,500	2,815,410	(280,090)
Intergovernmental	14,881,342	14,874,560	15,258,673	384,113
Interest	60,080	60,080	94,798	34,718
Tuition and Fees	2,166,200	2,166,200	2,443,857	277,657
Rent	500	500	800	300
Extracurricular Activities	81,300	81,300	76,053	(5,247)
Gifts and Donations	29,200	29,200	200	(29,000)
Customer Sales and Services	500	500	15,391	14,891
Payments in Lieu of Taxes	6,000	6,000		(6,000)
Miscellaneous	17,300	17,300	1,447	(15,853)
	<u>31,856,720</u>	<u>31,849,938</u>	<u>32,058,072</u>	<u>208,134</u>
<b>Total Revenues</b>				
<b>EXPENDITURES:</b>				
<b>Current:</b>				
<b>Instruction:</b>				
Regular	16,287,387	14,918,440	14,863,102	55,338
Special	2,991,833	3,350,135	3,331,507	18,628
Vocational	717,412	729,411	722,781	6,630
Other	324,966	633,566	629,888	3,678
<b>Support Services:</b>				
Pupils	1,824,787	1,811,086	1,795,198	15,888
Instructional Staff	1,373,847	1,312,460	1,280,898	31,562
Board of Education	163,931	146,731	124,728	22,003
Administration	2,598,594	2,442,216	2,329,682	112,534
Fiscal	912,273	840,127	811,245	28,882
Operation and Maintenance of Plant	2,844,169	2,624,750	2,595,892	28,858
Pupil Transportation	2,033,383	2,017,492	1,939,573	77,919
Central	23,000	23,400	23,388	12
Community Services	100	496	(162)	658
Extracurricular Activities	732,540	822,599	788,245	34,354
	<u>32,828,222</u>	<u>31,672,909</u>	<u>31,235,965</u>	<u>436,944</u>
<b>Total Expenditures</b>				
Excess of Revenues Over (Under) Expenditures	<u>(971,502)</u>	<u>177,029</u>	<u>822,107</u>	<u>645,078</u>
<b>OTHER FINANCING SOURCES AND USES:</b>				
Advances In	115,954	115,954	115,954	
Proceeds from Sale of Capital Assets	1,000	1,000	165	(835)
Insurance Recoveries			35,749	35,749
Refund of Prior Year Expenditures	50,000	50,000	155,873	105,873
Transfers Out	(37,500)	(42,305)	(42,305)	
Advances Out		(50,949)	(50,949)	
	<u>129,454</u>	<u>73,700</u>	<u>214,487</u>	<u>140,787</u>
<b>Total Other Financing Sources and Uses</b>				
Net Change in Fund Balances	(842,048)	250,729	1,036,594	785,865
Fund Balance (Deficit) at Beginning of Year	6,486,952	6,486,952	6,486,952	
Prior Year Encumbrances Appropriated	475,168	475,168	475,168	
Fund Balance (Deficit) at End of Year	<u>\$ 6,120,072</u>	<u>\$ 7,212,849</u>	<u>\$ 7,998,714</u>	<u>\$ 785,865</u>

**NORTHEASTERN LOCAL SCHOOL DISTRICT  
CLARK COUNTY**

**STATEMENT OF NET POSITION  
FIDUCIARY FUNDS  
JUNE 30, 2017**

	<b>Private Purpose Trust</b>	
	<b>Scholarship</b>	<b>Agency</b>
<b>Assets</b>		
Equity in Pooled Cash and Cash Equivalents	\$ 15,741	\$ 140,750
Investments		
In Segregated Accounts	10,000	
Receivables:		
Accrued Interest	218	
	25,959	140,750
<i>Total Assets</i>	25,959	140,750
<b>Liabilities</b>		
Due to Students		\$ 140,750
		140,750
<i>Total Current Liabilities</i>		\$ 140,750
<b>Net Position</b>		
Held in Trust for Scholarships	\$ 25,959	

*See accompanying notes to the basic financial statements*

**NORTHEASTERN LOCAL SCHOOL DISTRICT  
CLARK COUNTY**

**STATEMENT OF CHANGES IN FUND NET POSITION  
FIDUCIARY FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

	<b>Private Purpose Trust</b>
	<b>Scholarship</b>
<b>Additions</b>	
Gifts and Contributions	\$ 3,750
Total Additions	3,750
<b>Deductions</b>	
Payments in Accordance with Trust Agreements	5,800
Total Deductions	5,800
Change in Net Position	(2,050)
Net Position Beginning of Year	28,009
Net Position End of Year	\$ 25,959

*See accompanying notes to the basic financial statements*

**NORTHEASTERN LOCAL SCHOOL DISTRICT  
CLARK COUNTY**

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

**1. DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY**

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

The School District was established in 1916 through the consolidation of existing land areas and school districts. The School District serves an area of approximately 118 square miles. It is located in Clark County, and includes the Villages of South Vienna and Catawba, and the Townships of Moorefield, Pleasant, and Harmony.

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

Component units are legally separate organizations for which the School District is financially accountable. The School District is financially accountable for an organization if the School District appoints a voting majority of the organization's governing board and (1) the School District is able to significantly influence the programs or services performed or provided by the organization; or (2) the School District is legally entitled to or can otherwise access the organization's resources; (3) the School District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; (4) or the School District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the School District in that the School District approves the budget, the issuance of debt, or the levying of taxes. 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 School District participates in the Miami Valley Educational Computer Association (MVECA), Springfield/Clark County Career Technical Center, and the Southwestern Ohio Educational Purchasing Council (SOEPC) which are defined as jointly governed organizations, and the Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan (GRP), which is defined as an insurance purchasing pool. These organizations are presented in Note 18 to the basic financial statements.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**NORTHEASTERN LOCAL SCHOOL DISTRICT  
CLARK COUNTY**

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

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**A. Basis of Presentation**

The School District's basic financial statements consist of government-wide statements, including a statement of net position and a statement of activities, and fund financial statements which provide a more detailed level of financial information.

**1. Government-wide Financial Statements:**

The statement of net position and the statement of activities display information about the School District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds.

The statement of net position presents the financial condition of the governmental activities of the School District at year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the School District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program and interest earned on grants that is required to be used to support a particular program. Revenues which are not classified as program revenues are presented as general revenues of the School District. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the School District.

**2. Fund Financial Statements:**

During the year, the School District segregates transactions related to certain School District functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the School District at this more detailed level. The focus of governmental fund financial statements is on major funds. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column. The fiduciary funds are reported by type.

**B. Fund Accounting**

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

**NORTHEASTERN LOCAL SCHOOL DISTRICT  
CLARK COUNTY**

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

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**1. Governmental Funds:**

Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes 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 and liabilities is reported as fund balance. The following are the School District's major governmental funds:

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

**Permanent Improvement Capital Projects Fund** - The permanent improvement capital projects fund accounts for a property tax levy to be used for the acquisition, construction, or improvement of capital facilities other than those financed by the private purpose trust fund.

The other governmental funds of the School District account for grants and other resources whose use is restricted to a particular purpose.

**2. Fiduciary Fund Types:**

Fiduciary fund reporting focuses on net position and changes in net position. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the School District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the School District's own programs. The School District has thirteen private purpose trust funds. Twelve account for scholarship programs for students. The other is a memorial fund which accounts for monies for construction and maintenance of a memorial for a past graduate. The agency fund is custodial in nature (assets equal liabilities) and does not involve measurement of results of operations. The School District's agency fund accounts for those student activity programs which have student participation in the activity and have students involved in the management of the program. This fund typically includes student activities which consist of a student body, student president, student treasurer, and faculty advisor.

**C. Measurement Focus**

**1. Government-wide Financial Statements:**

The government-wide financial statements are prepared using the economic resources measurement focus. All assets and liabilities associated with the operation of the School District are included on the Statement of Net position. The statement of activities presents increases (i.e., revenues) and decreases (i.e., expenses) in total net position.



**NORTHEASTERN LOCAL SCHOOL DISTRICT  
CLARK COUNTY**

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

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2. Fund Financial Statements:**

All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The private purpose trust fund is reported using the economic resources measurement focus.

**D. Basis of Accounting**

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Fiduciary funds also use the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Differences in the accrual and the modified accrual basis of accounting arise in the recognition of revenue, in the recording of deferred inflow of resources, and in the presentation of expenses versus expenditures.

**1. Revenues - Exchange and 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. For the School District, available means expected to be received within sixty days of fiscal year-end.

Non-exchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (See Note 7). Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the School District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

**NORTHEASTERN LOCAL SCHOOL DISTRICT  
CLARK COUNTY**

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

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at fiscal year-end: property taxes available as an advance, interest, tuition, grants, and student fees.

**2. Deferred Outflows/Inflows of Resources:**

In addition to assets, the statements of financial position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources represent 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 School District, deferred outflows of resources are reported on the government-wide statement of net position for pension. The deferred outflows of resources related to pension are explained in Note 12.

In addition to liabilities, the statements of financial position 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 until that time. For the School District, deferred inflows of resources include property taxes, pension, 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 on both the government-wide statement of net position and 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 School District, unavailable revenue includes delinquent property taxes, intergovernmental grants, and miscellaneous revenues. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available. Deferred inflows of resources related to pension are reported on the government-wide statement of net position. (See Note 12)

**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.

**3. Expenses/Expenditures:**

On the accrual basis of accounting, expenses are recognized at the time they are incurred.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization are not recognized in governmental funds.

**NORTHEASTERN LOCAL SCHOOL DISTRICT  
CLARK COUNTY**

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

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**E. Budgetary Data**

All funds, other than agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the appropriation resolution and the certificate of estimated resources, which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amounts that the Board of Education may appropriate. The appropriation resolution is the Board's authorization to spend resources and sets annual limits on expenditures plus encumbrances at a level of control selected by the Board. The legal level of control has been established by the Board of Education at the fund/function/object level. Any budgetary modifications at this level may only be made by resolution of the Board of Education.

The certificate of estimated resources may be amended during the year if projected increases or decreases in revenue are identified by the School District Treasurer. The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts in the certificate when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements 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. Prior to fiscal year-end, the School District requested an amended certificate of estimated resources that reflects actual revenue for the fiscal year.

The appropriation resolution is subject to amendment by the Board throughout the year with the restriction that appropriations may not exceed estimated revenues. The amounts reported as the original budgeted amounts reflect the first appropriation for that fund that covered the entire fiscal year, including amounts automatically carried over from prior years. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by the Board during the year.

**F. Cash and Cash Equivalents**

To improve cash management, all cash received by the School District is pooled. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through School District records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" on the balance sheet. The School District utilizes a financial institution to service bonded debt as principal and interest payments come due. The balance in this account is presented on the financial statements as "Cash and Cash Equivalents with Fiscal Agents" and represents deposits. The School District has segregated bank accounts for monies held separate from the School District's central bank account. These interest bearing depository accounts are presented in the combined balance sheet as "cash and cash equivalents in segregated accounts" since they are not required to be deposited into the School District treasury.

During fiscal year 2017, investments were limited to certificates of deposit, First American Treasury Money Market funds, Toyota Motor Credit Commercial Paper, Natixis New York Commercial Paper, JP Morgan Commercial Paper, Bank of Tokyo Mitsubishi Commercial Paper, Federal Home Loan Bank Notes, Federal National Mortgage Association Notes, and Federal Home Loan Mortgage Corporation (FHLMC) Notes.

**NORTHEASTERN LOCAL SCHOOL DISTRICT  
CLARK COUNTY**

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

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

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 2017 amounted to \$67,412 which includes \$14,399 assigned from other School District funds.

Investments of the cash management pool and investments with an original maturity of three months or less at the time they are purchased by the School District are considered to be cash equivalents. Investments with an original maturity of more than three months that are not made from the pool are reported as investments.

**G. Prepaid Items**

Payments made to vendors for services that will benefit periods beyond June 30, 2017, 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.

**H. Inventory**

On government-wide and fund financial statements, purchased inventories are presented at the lower of cost or market and donated commodities are presented at their entitlement value. Inventories are recorded on a first-in, first-out basis and are expensed when used. Inventories are accounted for using the consumption method on the government-wide statements and the fund financial statements.

On the fund financial statements, reported material and supplies inventory is equally offset by nonspendable fund balance in the governmental funds which indicates that it does not constitute available spendable resources even though it is a component of net current assets.

Inventory consists of expendable supplies held for consumption, school supplies held for resale, donated food and purchased food.

**I. Capital Assets**

General capital assets result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net position, but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their acquisition values as of the date received. The School District maintains a capitalization threshold of one thousand dollars. The School 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.

All reported capital assets except for land and construction in progress are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Land Improvements	10-99 years
Buildings and Improvements	20-100 years
Furniture and Equipment	5-50 years
Vehicles	20 years

**NORTHEASTERN LOCAL SCHOOL DISTRICT  
CLARK COUNTY**

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

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**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 School District will compensate the employees for the benefits through paid time off or some other means. The School District records a liability for accumulated unused vacation time when earned for all employees with more than one year of service.

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

The entire compensated absence liability is reported on the government-wide financial statements.

For governmental fund financial statements, compensated absences are reported as liabilities and expenditures as payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the account "matured compensated absences payable" in the funds from which the employees will be paid.

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

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements.

In general, payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the governmental funds. However, compensated absences and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current fiscal year. General obligation bonds and other long-term obligations that will be paid from governmental funds are recognized as a liability in the fund financial statements when due.

**L. Net Position**

Net position represents the difference between asset and deferred outflows of resources, and liabilities and deferred inflows of resources. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

The School District applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net positions are available. None of the restricted net position is restricted by enabling legislation.

**NORTHEASTERN LOCAL SCHOOL DISTRICT  
CLARK COUNTY**

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

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**M. Fund Balance**

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

**Non-spendable** – The non-spendable classification includes amounts that cannot be spent because they are not in spendable form or legally or contractually required to be maintained intact. The “not in spendable form” includes items that are not expected to be converted to cash.

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

**Committed** – The committed classification includes amounts that can be used only for the specific purposes imposed by a formal action (resolution) of the Board of Education. The committed amounts cannot be used for any other purpose unless the Board of Education removes or changes the specified use by taking the same type of action (resolutions) 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 classification are intended to be used by the School District for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds, other than the General Fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the General Fund, assigned amounts represent intended uses established by the Board of Education.

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

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

**N. Interfund Activity**

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.



**NORTHEASTERN LOCAL SCHOOL DISTRICT  
CLARK COUNTY**

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

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Interfund transfers for the year ended June 30, 2017 consisted of a transfer from the General fund to the District's food service fund, in the amount of \$42,305, as reported on the fund financial statements.

Interfund transfers are eliminated on the entity-wide statement of activities and statement of net position.

**O. 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 2017.

**P. Estimates**

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

**3. CHANGE IN ACCOUNTING PRINCIPLES**

For the fiscal year ended June 30, 2017, the School District has implemented Governmental Accounting Standards Board (GASB) Statement No. 80, "Blending Requirements for Certain Component Units", GASB Statement No. 81, "Irrevocable Split-Interest Agreements", and GASB Statement No. 82, "Pension Issues".

GASB Statement No. 80 establishes an additional blending requirement for the financial statement presentation of 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 School District.

GASB Statement No. 81 establishes accounting and financial reporting standards for irrevocable split-interest agreements created through trusts—or other legally enforceable agreements with characteristics that are equivalent to irrevocable split-interest agreements—in which a donor irrevocably transfers resources to an intermediary. The implementation of GASB Statement No. 81 did not have an effect on the financial statements of the School District.

GASB Statement No. 82 clarifies that payments that are made by an employer to satisfy contribution requirements that are identified by the pension plan terms as plan member contribution requirements should be classified as plan member contributions for purposes of Statement 67 and as employee contributions for purposes of Statement 68. It also requires that an employer's expense and expenditures for those amounts be recognized in the period for which the contribution is assessed and classified in the same manner as the employer classifies similar compensation other than pensions (for example, as salaries and wages or as fringe benefits).

**NORTHEASTERN LOCAL SCHOOL DISTRICT  
CLARK COUNTY**

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

**4. ACCOUNTABILITY AND COMPLIANCE**

The School District had deficit fund balances in the following special revenue funds as of June 30, 2017:

Fund	Amount
Food Service	\$71,420
Title VI-B	19,475
Title I	9
High Schools that Work Grant	4,653

The general fund is liable for deficits in these funds and will provide operating transfers when cash is required, not when accruals occur.

**5. BUDGETARY BASIS OF ACCOUNTING**

While the School District is 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, disbursements and encumbrances. The Statement of Revenues, Expenditures and Changes in Fund Balances - Budget (Non-GAAP Basis) and Actual 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 GAAP basis are as follows:

1. Revenues are recorded when received in cash (budget) as opposed to when susceptible to accrual (GAAP).
2. Expenditures are recorded when paid in cash (budget) as opposed to when the fund liability is incurred (GAAP).
3. Encumbrances are treated as expenditures (budget) rather than as an assigned fund balance (GAAP).
4. Some funds are included in the general fund (GAAP basis), but have separate legally adopted budgets (budget basis)

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements for the general fund.

	<b>Net Change in Fund Balance</b>
GAAP Basis	\$2,570,862
Net Adjustment for Revenue Accruals	(1,550,645)
Net Adjustment for Expenditure Accruals	316,379
Encumbrances	(238,113)
Advances	(50,949)
Prepays	(6,643)
Funds Budgeted Elsewhere	(4,297)
Budget Basis	<u>\$1,036,594</u>



**NORTHEASTERN LOCAL SCHOOL DISTRICT  
CLARK COUNTY**

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

**6. DEPOSITS AND INVESTMENTS**

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

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

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

Protection of the School 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.

Interim monies are to be deposited or invested in the following securities:

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;

**NORTHEASTERN LOCAL SCHOOL DISTRICT  
CLARK COUNTY**

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

**6. DEPOSITS AND INVESTMENTS (Continued)**

6. The State Treasurer's investment pool (STAR Ohio);
7. Certain bankers' acceptances 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 rating 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 School District, and must be purchased with the expectation it will be held to maturity.

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

**A. Cash on Hand:**

At year end, the School District had \$10,000 in cash on hand which is included on the financial statements of the School District as "Cash and Cash Equivalents in Segregated Accounts."

The following information classifies deposits and investments by categories of risk as defined in GASB Statement 3, "Deposits with Financial Institutions, Investments and Reverse Repurchase Agreements".

**B. Deposits:**

At year-end, the carrying amount of the School District's deposits was \$ 9,975,299 and the bank balance was \$ 9,961,411. \$535,295 of the bank balance was covered by federal depository insurance. Although the securities serving as collateral were held by the pledging financial institution's trust department in the School District's name and all State statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the School District to a successful claim by the Federal Deposit Insurance Corporation.

**NORTHEASTERN LOCAL SCHOOL DISTRICT  
CLARK COUNTY**

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

**6. DEPOSITS AND INVESTMENTS (Continued)**

**C. Investments:**

The District's investments at June 30, 2017 are summarized below:

Investment	6/30/2017		Credit Rating	% of Portfolio
	0-1 Years Before Maturity	1-5 Years Before Maturity		
First American Treasury Money Market	\$5,834			0.15%
JP Morgan Securities Commercial Paper	198,652		P-1, A-1	4.98%
Bank of Tokyo Mitsubishi Commercial Paper	198,690		P-1, A-1	4.98%
Toyota Motor Credit Commercial Paper	198,690		P-1, A-1	4.98%
Natixis new York Commercial Paper	178,821		P-1, A-1	4.49%
American Express Centurion Certificate of Deposit		\$231,518		5.81%
Ally Bank Certificate of Deposit	237,874			5.97%
Capital One Bank Certificate of Deposit		245,863		6.17%
First Bank Puerto Rico Certificate of Deposit		248,201		6.23%
American Express Bank Certificate of Deposit		205,270		5.15%
Federal Home Loan Bank Notes (FHLB) Notes		323,083	Aaa, AA+	8.11%
Federal National Mortgage Association (FNMA) Notes		1,559,064	Aaa, AA+	39.11%
Federal Home Loan Mortgage Corporation (FHLMC)		154,409	Aaa, AA+	3.87%
	<u>\$1,018,561</u>	<u>\$2,967,408</u>		<u>100.00%</u>

The School District's investments in federal agency securities, negotiable certificates of deposit and commercial paper are valued using quoted market prices (Level 1 inputs).

**D. Custodial Credit Risk:**

The risk that, in the event of a failure of a counter party, the District will not be able to recover the value of its investments or collateral securities that is in the possession of an outside party. The District employs the use of "safekeeping" accounts to hold and maintain custody of its investments as identified within this policy and as a means of mitigating this risk.

**NORTHEASTERN LOCAL SCHOOL DISTRICT  
CLARK COUNTY**

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

**6. DEPOSITS AND INVESTMENTS (Continued)**

**E. Interest Rate Risk:**

Interest rate risk is the risk that the District will incur fair value losses arising from rising interest rates. Such risk is mitigated by the investment policy by limiting investments to certain maximum maturities. Per the Board of Education investment policy, investments are to have a maximum maturity of five years unless the investment is matched to a specific obligation or debt of the District.

**F. Credit Risk:**

The Ohio Revised Code limits investments in commercial paper, corporate bonds, and mutual bond funds to the top two ratings issued by nationally recognized statistical rating organizations at the time of purchase.

**G. Concentration of Credit Risk:**

The District's investment policy provides for diversification to avoid undue concentration in securities of one type or securities. This restriction does not apply to obligations guaranteed by the U.S. government. Of the District's total investments, .15 percent is invested in a money market fund; 4.98 percent is invested in JP Morgan Credit Commercial Paper; 4.98 percent is invested in Bank of Tokyo Mitsubishi Credit Commercial Paper; 4.98 percent is invested in Toyota Motor Credit Commercial Paper; 4.49 percent is invested in Natixis New York Commercial Paper; 5.81 percent is invested in American Express Centurion CD; 5.97 percent is invested Ally Bank CD; 6.17 percent is invested Capital One Bank CD; 6.23 percent is invested First Bank Puerto Rico CD; 5.15 percent is invested American Express CD; 8.11 percent are Federal Home Loan Bank Notes; 39.11 percent is invested in Federal National Mortgage Association Notes; and 3.87 percent is invested in Federal Home Loan Mortgage Corporation (FHMLC).

The classification of cash and cash equivalents, and investments on the basic financial statements is based on criteria set forth in GASB Statement No. 9. A reconciliation between the classifications of cash and investments on the basic financial statements and the classification per GASB Statement No. 3 is as follows:

**NORTHEASTERN LOCAL SCHOOL DISTRICT  
CLARK COUNTY**

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

**6. DEPOSITS AND INVESTMENTS (Continued)**

**G. Concentration of Credit Risk (Continued):**

	Cash and Cash Equivalents	Investments
Cash and Cash Equivalent - Basic Financial Statements	\$ 9,794,135	\$ 10,000
Cash on Hand	(10,000)	
Investments:		
CDARS Investment	10,000	(10,000)
First American Treasury Money Market	(5,834)	5,834
JP Morgan Securities Commercial Paper	(198,652)	198,652
Bank of Tokyo Mitsubishi Commercial Paper	(198,690)	198,690
Toyota Motor Credit Commercial Paper	(198,690)	198,690
Natixis New York Commercial Paper	(178,821)	178,821
American Express Centurion Certificate of Deposit	(231,518)	231,518
Ally Bank Certificate of Deposit	(237,874)	237,874
Capital One Bank Certificate of Deposit	(245,863)	245,863
First Bank Puerto Rico Certificate of Deposit	(248,201)	248,201
American Express Bank FSB	(205,270)	205,270
Federal Home Loan Bank Notes (FHLB) Notes	(323,083)	323,083
Federal National Mortgage Association (FNMA) Notes	(1,559,064)	1,559,064
Federal Home Loan Mortgage Corporation (FHLMC)	(154,409)	154,409
Total	\$ 5,808,166	\$ 3,985,969

**7. PROPERTY TAXES**

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

**NORTHEASTERN LOCAL SCHOOL DISTRICT  
CLARK COUNTY**

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

**7. PROPERTY TAXES (Continued)**

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.

Public utility tangible personal property currently is assessed at varying percentages of true value public utility real property is assessed at thirty-five percent of true value. 2016 public utility property taxes became a lien December 31, 2015, are levied after April 1, 2016, and are collected in 2016 with real property taxes. 2016 tangible personal property taxes are levied after April 1, 2015, on the value as of December 31, 2015. Collections are made in 2016. Tangible personal property assessments are twenty-five percent of true 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.

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

	<b>2016 Second - Half Collections</b>		<b>2017 First - Half Half Collections</b>	
	<b>Amount</b>	<b>Percent</b>	<b>Amount</b>	<b>Percent</b>
Agricultural/Residential and Other Real	\$454,845,960	97.49%	\$481,343,940	97.30%
Public Utility Personal	11,717,710	2.51%	13,350,470	2.70%
Total	<u>\$466,563,670</u>	<u>100.00%</u>	<u>\$494,694,410</u>	<u>100.00%</u>
Tax Rate per \$1,000 of Assessed Valuation	\$48.08		\$48.01	

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

Accrued property taxes receivable represents real property and public utility 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 were 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 to deferred inflows of resources. At June 30, 2017, \$2,341,115 was available as an advance to the general fund, \$35,940 in the permanent improvement fund, and \$63,601 in the non-major governmental funds.

**NORTHEASTERN LOCAL SCHOOL DISTRICT  
CLARK COUNTY**

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

**7. PROPERTY TAXES (Continued)**

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

**8. INCOME TAX**

The School District levies an income tax of one percent on substantially all income earned by School District residents. Employers with employees based in the state of Ohio are required to withhold income tax on employee compensation and remit the tax to the Ohio Department of Taxation either monthly or quarterly. Individuals may make estimated payments. Income tax proceeds are to be used to pay General Fund operations of the School District. The proceeds are allocated to the General Fund. Income tax revenue for fiscal year 2017 on the modified accrual basis was \$ 3,997,660.

**9. RECEIVABLES**

Receivables at June 30, 2017, consisted of property taxes, income taxes, accounts (tuition and student fees), intergovernmental grants and interest. All receivables are considered collectible in full and will be received within one year. A summary of the principal items of intergovernmental receivables follows:

<b>Governmental Activities:</b>	
SERS Overcharge	\$33,611
Motor Fuel Tax Reimbursement	2,432
Casino Tax Money	88,225
E-Rate Refund	4,798
BWC Refund	71,790
Title VI-B Grant	123,453
High Schools That Work Grant	6,820
Medicaid	<u>4,028</u>
Total Intergovernmental Receivables	<u><u>\$335,157</u></u>

**NORTHEASTERN LOCAL SCHOOL DISTRICT  
CLARK COUNTY**

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

**10. CAPITAL ASSETS**

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

	Ending Balance 6/30/2016	Additions	Deletions	Ending Balance 6/30/2017
Land	\$ 268,349	\$ -	\$ -	\$ 268,349
Total Capital Assets, not being dep.	<u>268,349</u>	<u>-</u>	<u>-</u>	<u>268,349</u>
Land Improvements	677,227	6,342	-	683,569
Buildings	26,646,793	-	-	26,646,793
Furniture Fixture & Equipment	3,789,897	158,080	93,993	3,853,984
Vehicles	2,191,896	109,879	-	2,301,775
Total Capital Assets, being depr	<u>33,305,813</u>	<u>274,301</u>	<u>93,993</u>	<u>33,486,121</u>
Less: Accumulated Depreciation :				
Land Improvements	(391,826)	(7,064)	-	(398,890)
Buildings	(14,414,749)	(496,261)	-	(14,911,010)
Furniture Fixture & Equipment	(1,949,904)	(173,001)	(73,952)	(2,048,953)
Vehicles	(1,384,649)	(118,642)	-	(1,503,291)
Total Accumulated Depreciation	<u>(18,141,128)</u>	<u>(794,968)</u>	<u>(73,952)</u>	<u>(18,862,144)</u>
Total Capital Assets being depr, net	<u>15,164,685</u>	<u>(520,667)</u>	<u>20,041</u>	<u>14,623,977</u>
Governmental Activities, Capital Capital Assets, Net	<u>\$ 15,433,034</u>	<u>\$ (520,667)</u>	<u>\$ 20,041</u>	<u>\$ 14,892,326</u>

\* Depreciation expense was charged to governmental functions as follows:

<b>Instruction:</b>	
Regular	\$ 299,534
Special	53,062
Vocational	41,318
<b>Support Services:</b>	
Pupil	32,868
Instructional Staff	30,275
Administration	50,405
Fiscal	15,299
Operation and Maintenance of Plant	48,101
Pupil Transportation	118,831
Operation of Non-Instructional Services	80,468
Extracurricular Activities	24,807
Total Depreciation Expense	<u>\$ 794,968</u>



**NORTHEASTERN LOCAL SCHOOL DISTRICT  
CLARK COUNTY**

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

**11. RISK MANAGEMENT**

**A. Property and Liability**

The School District is exposed to various risks of loss related to torts; theft or, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2017, the School District contracted with the Southwestern Ohio Educational Purchasing Council for property and fleet insurance, liability insurance, crime, terrorism, and automobile coverage. Coverage provided through this Council is as follows:

Building and Contents - replacement cost; including Boiler and Machinery	\$250,000,000
Excess Property	\$350,000,000
Flood	\$25,000,000
Earthquake	\$25,000,000
Automobile Liability (\$0 deductible)	\$1,000,000
General Liability Per Occurrence	\$1,000,000
Sexual Molestation	\$1,000,000
Site Pollution	\$1,000,000

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

**B. Workers' Compensation**

For fiscal year 2017, the School District participated in the Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan (GRP), a workers' compensation insurance purchasing pool (Note 19). The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund." This "equity pooling fund" arrangement ensures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Integrated Comp Incorporated provides administrative, cost control, and actuarial services to the GRP.

**12. DEFINED BENEFIT PENSION PLANS**

**A. 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.

**NORTHEASTERN LOCAL SCHOOL DISTRICT  
CLARK COUNTY**

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

**12. DEFINED BENEFIT PENSION PLANS (Continued)**

**A. Net Pension Liability (Continued)**

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

Ohio Revised Code limits the School District's obligation for this liability to annually required payments. The School District cannot control benefit terms or the manner in which pensions are financed; however, the School 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 *intergovernmental payable* on both the accrual and modified accrual bases of accounting.

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

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

**NORTHEASTERN LOCAL SCHOOL DISTRICT  
CLARK COUNTY**

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

**12. DEFINED BENEFIT PENSION PLANS (Continued)**

**B. Plan Description - School Employees Retirement System (SERS) (Continued)**

Age and service requirements for retirement are as follows:

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

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

Annual retirement benefits are calculated based on final average salary multiplied by a percentage that varies based on year of service; 2.2 percent for the first 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 Northeastern Local School District is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System's funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2017, the allocation to pension, death benefits, and Medicare B was 14 percent. SERS did not allocate any employer contributions to the Health Care Fund for fiscal year 2017.

The Northeastern Local School District's contractually required contribution to SERS was \$668,863 for fiscal year 2017. Of this amount \$133,812 is reported as an intergovernmental payable.

**NORTHEASTERN LOCAL SCHOOL DISTRICT  
CLARK COUNTY**

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

**12. DEFINED BENEFIT PENSION PLANS (Continued)**

**C. Plan Description - State Teachers Retirement System (STRS) (Continued)**

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

New members have a choice of three retirement plans; a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. Benefits are established by Ohio Revised Code Chapter 3307. The DB plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service. Effective August 1, 2015, the calculation 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.

**NORTHEASTERN LOCAL SCHOOL DISTRICT  
CLARK COUNTY**

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

**12. DEFINED BENEFIT PENSION PLANS (Continued)**

**C. Plan Description - State Teachers Retirement System (STRS) (Continued)**

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. The statutory maximum employee contribution rate was increased one percent July 1, 2014, and will be increased one percent each year until it reaches 14 percent on July 1, 2016. For the fiscal year ended June 30, 2017, plan members were required to contribute 14 percent of their annual covered salary. The School 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 Northeastern Local School District's contractually required contribution to STRS was \$1,999,375 for fiscal year 2017. Of this amount \$334,562 is reported as an intergovernmental payable.

**D. 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 School District's proportion of the net pension liability was based on the School 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>
Proportionate Share of the Net Pension Liability	\$10,978,418	\$43,845,699	\$54,824,117
Proportion of the Net Pension Liability prior measurement date	0.15259930%	0.13164438%	
Proportion of the Net Pension Liability current measurement date	0.14999730%	0.13098820%	
Change in proportionate share	<u>0.00260200%</u>	<u>0.00065618%</u>	
Pension Expense	<u>\$ 1,204,847</u>	<u>\$ 3,285,121</u>	\$ 4,489,968

**NORTHEASTERN LOCAL SCHOOL DISTRICT  
CLARK COUNTY**

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

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

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
<b>Deferred Outflows of Resources</b>			
Net difference between projected and actual earnings on pension plan investments	\$905,559	\$3,640,370	\$4,545,929
Difference between expected and actual experience	148,075	1,771,577	1,919,652
Changes in assumptions	732,780		732,870
School District Contributions subsequent to the measurement date	<u>668,863</u>	<u>1,999,375</u>	<u>2,668,238</u>
Total Deferred Outflow of Resources	<u>\$2,455,367</u>	<u>\$7,411,322</u>	<u>\$9,866,689</u>
<b>Deferred Inflows of Resources</b>			
Changes in proportion and differences between School District contributions and proportionate share of contributions	<u>\$ 442,463</u>	<u>\$ 456,118</u>	<u>\$ 898,581</u>
Total Deferred Inflows of Resources	<u>\$ 442,463</u>	<u>\$ 456,118</u>	<u>\$ 898,581</u>

\$2,668,238 reported as deferred outflows of resources related to pension resulting from School 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:

<b>Fiscal Year Ending June 30:</b>	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
2018	(250,374)	(717,244)	(967,618)
2019	(249,721)	(717,247)	(966,968)
2020	(583,633)	(2,114,148)	(2,697,781)
2021	<u>(260,313)</u>	<u>(1,407,190)</u>	<u>(1,667,503)</u>
	<u>(\$1,344,041)</u>	<u>(\$4,955,829)</u>	<u>(\$6,299,870)</u>

**NORTHEASTERN LOCAL SCHOOL DISTRICT  
CLARK COUNTY**

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

**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, 2015, are presented below:

Wage Inflation	3.25 percent
Future Salary Increases, including inflation	4.00 percent to 22.00 percent
COLA or Ad Hoc COLA	3 percent
Investment Rate of Return	7.75 percent net of investments expense, including inflation
Actuarial Cost Method	Entry Age Normal

For post-retirement mortality, the table used in evaluating allowances to be paid is the 1994 Group Annuity Mortality Table set back one year for both men and women. Special mortality tables are used for the period after disability retirement.

The most recent experience study was completed June 30, 2010.

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:



**NORTHEASTERN LOCAL SCHOOL DISTRICT  
CLARK COUNTY**

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

**12. DEFINED BENEFIT PENSION PLANS (Continued)**

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Cash	1.00 %	0.00 %
US Stocks	22.50	5.00
Non-US Stocks	22.50	5.50
Fixed Income	19.00	1.50
Private Equity	10.00	10.00
Real Assets	10.00	5.00
Multi-Asset Strategies	15.00	7.50
Total	<u>100.00 %</u>	

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

**Sensitivity of the School 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)%
System's net pension liability	\$14,534,742	\$10,978,418	\$8,001,628

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 expense,	7.50 percent net of investments including inflation
Actuarial Cost Method Entry	Age Normal (level percent of payroll)



**NORTHEASTERN LOCAL SCHOOL DISTRICT  
CLARK COUNTY**

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

**12. DEFINED BENEFIT PENSION PLANS (Continued)**

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 disabled members 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.

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 average of the expected real return premiums for each asset class, adding the projected inflation rate, and adding the expected return from rebalancing uncorrelated asset classes. The target allocation and best estimates of arithmetic real rates of return for each major assets class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Cash	1.00%	0.5%
US Equity	22.50	4.75
Internatinal Equity	22.50	7.00
Fixed Income	19.00	1.50
Private Equity	10.00	8.00
Real Assets	15.00	5.00
Multi-Asset Strategies	<u>10.00</u>	3.00
 Total	 <u>100.00%</u>	

**Changes Between Measurement Date and Report Date** In April 2016, the SERS board adopted certain assumption changes which impacted their annual actuarial valuation prepared as of June 30, 2016. The most significant change is a reduction in the discount rate from 7.75 percent to 7.5 percent. Although the exact amount of these changes is not known, the impact to the District's net pension liability is expected to be significant.

**NORTHEASTERN LOCAL SCHOOL DISTRICT  
CLARK COUNTY**

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

**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>	

**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.

**NORTHEASTERN LOCAL SCHOOL DISTRICT  
CLARK COUNTY**

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

**12. DEFINED BENEFIT PENSION PLANS (Continued)**

**Sensitivity of the School District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate** The following table presents the School 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 School 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)%
School District's proportionate share			
of the net pension liability	\$58,267,371	\$43,845,699	\$31,680,168

**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.

**C. Social Security System**

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System of Ohio have an option to choose Social Security or the School Employees Retirement System. As of June 30, 2017, two members of the Board of Education have elected Social Security. The Board's liability is 6.2 percent of wages paid.

**13. POST-EMPLOYMENT BENEFITS**

**A. School Employee Retirement System**

**Health Care Plan**

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

**NORTHEASTERN LOCAL SCHOOL DISTRICT  
CLARK COUNTY**

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

**13. POST-EMPLOYMENT 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, the number of qualified years of service, Medicare eligibility and retirement status.

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required basic benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. For fiscal year 2017, SERS did not allocate any employer contributions to the Health Care Fund. In addition, employers pay a surcharge for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. For fiscal year 2017, this amount was \$23,500. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge.

The District's contributions for health care (including surcharge) for the fiscal years ended June 30, 2017, 2016, and 2015 were \$85,638, \$77,178, and \$117,209 respectively. For fiscal year 2017, 80.57 percent has been contributed, with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2015 and 2014.

**B. State Teachers Retirement System**

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

Funding Policy – Ohio Revised Code Chapter 3307 authorizes STRS to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS. Active employee members do not contribute to the Health Care Plan. All benefit recipients, for the most recent year, pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For fiscal year 2017, STRS did not allocate any employer contributions to post-employment health care. The School District's contributions for health care for the fiscal years ended June 30, 2017, 2016, and 2015 were \$0, \$0, and \$0, respectively.

**NORTHEASTERN LOCAL SCHOOL DISTRICT  
CLARK COUNTY**

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

**14. OTHER EMPLOYEE BENEFITS**

**A. Compensated Absences**

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

Teachers, administrators, and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of 280 days for all personnel. Upon retirement, payment is made for one-fourth of accrued, unused sick leave up to the maximum of 280 days. Administrators retiring in fiscal year 2017 were eligible to receive payment of 40 percent of accrued, unused sick leave up to the maximum of 280 days.

**B. Insurance Benefits**

The School District provides life insurance to most employees through Sun Life Insurance. Medical/surgical is offered to employees through EPC Insurance Consortium.

**15. CAPITAL LEASES**

The School District has entered into several lease agreements for copiers for the district. The lease meets the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13 "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital lease payments are reflected as debt service expenditures in the general purpose financial statements for governmental funds. During fiscal year 2016, the School District entered into three new lease agreements, replacing expired leases, for copiers for the district. The items are being capitalized as part of fixed assets. A corresponding liability is included in governmental activities general long term debt. Principal payments in fiscal year 2017 totaled \$46,572. Future minimum lease payments are as follows:

<b>Fiscal Year Ended</b>	<b>Amount</b>
2018	\$ 46,572
2019	19,308
2020	12,990
	<hr/> <hr/> <b>\$ 78,870</b>

**NORTHEASTERN LOCAL SCHOOL DISTRICT  
CLARK COUNTY**

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

**16. LONG-TERM OBLIGATIONS**

The changes in the School District's long-term obligations during fiscal year 2017 were as follows:

	<b>Amount Outstanding</b>			<b>Amount    Amounts Outstanding    Due Within</b>	
	<b>June 30, 2016</b>	<b>Additions</b>	<b>Deletions</b>	<b>June 30, 2017</b>	<b>One Year</b>
Governmental Activities:					
General Obligation Bonds:					
2005 Refunding GO Bonds					
3% to 5.75% 14 years	\$ 1,185,000	\$ -	\$ 395,000	\$ 790,000	\$ 400,000
Premium on 2005 Refunding	72,821	-	24,272	48,549	-
Total Bond Debt	1,257,821	-	419,272	838,549	400,000
Capital Leases	125,442	-	46,572	78,870	46,572
Compensated Absences	1,268,481	563,530	298,231	1,533,780	351,990
Total Governmental Activities	2,651,744	563,530	764,075	2,451,199	798,562
Unamortized Premium	(72,821)			(48,549)	-
Total Long Term Liabilities	<u>\$ 2,578,923</u>			<u>\$ 2,402,650</u>	<u>798,562</u>
Net Pension Liability:					
STRS	\$ 36,382,657	\$ 9,462,417	\$ 1,999,375	\$ 43,845,699	
SERS	8,707,464	2,939,817	668,863	10,978,418	
Total Net Pension Liability	<u>\$ 45,090,121</u>	<u>\$ 12,402,234</u>	<u>\$ 2,668,238</u>	<u>\$ 54,824,117</u>	

**2005 Refunding General Obligation Bonds** – On September 15, 2005, the School District issued School Improvement Refunding General Obligation Bonds, with semi-annual payments due on June 1 and December 1 of each year, and interest payable beginning December 1, 2005. The refunding bonds are issued for the purpose of refunding outstanding general obligation bonds originally issued for the purpose of new construction, improvements, renovations, and additions to school facilities and providing equipment, including educational equipment and curriculum materials, furnishings and site improvements. The refunding bonds will be paid from the bond retirement fund.

The capital lease obligation will be paid from the General Fund.

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

The School District's overall legal debt margin was \$44,633,755 with an un-voted debt margin of \$494,694, and an energy conservation debt margin of \$4,452,250 at June 30, 2017.

Principal and interest requirements to retire general obligation debt outstanding at June 30, 2017, are as follows:

<b>2005 Refunding GO Bonds</b>			
<b>Fiscal Year Ending</b>	<b>Principal</b>	<b>Interest</b>	<b>Totals</b>
2018	\$ 400,000	\$ 21,725	\$ 421,725
2019	390,000	7,312	397,312
Total	<u>\$ 790,000</u>	<u>\$ 29,037</u>	<u>\$ 819,037</u>



**NORTHEASTERN LOCAL SCHOOL DISTRICT  
CLARK COUNTY**

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

**17. ISSUANCE OF GENERAL OBLIGATION REFUNDING BONDS**

On September 15, 2005, the Northeastern Local School District issued \$3,765,000 of General Obligation refunding bonds to provide resources to purchase United States Government Securities that were placed in an irrevocable trust for the purpose of generating resources for all future debt service payments of \$3,765,000 of General Obligation bonds. The School District used the new bonds, previously funded debt service payments, plus \$339,813, to defease the outstanding liability. The refunded portion of the 1996 bonds will be called at the first call date of December 1, 2007. As a result, the in-substance defeasance is considered to be defeased and the liability has been removed from the statement of net position. Until the bonds are called the information will be presented as a note to the financial statements (See Note 18).

**18. IN-SUBSTANCE DEFEASANCE OF GENERAL OBLIGATION BONDS**

In September 2005, the School District entered into an Escrow Trust Agreement with the Bank of New York. The agreement required that the School District deposit \$4,023,579 into an irrevocable trust with the bank for the payment to final maturity from the 1996 General Obligation Bonds. The funds deposited, per the agreement, purchased U.S. Government Securities in substitution of the general obligations of the School District. The funds deposited, together with interest earned thereon, shall be sufficient to pay semi-annual principal and interest payments, thus providing an in-substance defeasance. The (in-substance) defeasance has occurred for the following General Obligation bonds:

Original Amount	Amount Defeased	Outstanding Amount at 6/30/17
\$5,300,000	\$3,765,000	\$0

**19. JOINTLY GOVERNED ORGANIZATIONS AND INSURANCE PURCHASING POOL**

**A. Jointly Governed Organizations**

**Miami Valley Educational Computer Association** - The School District is a participant in the Miami Valley Educational Computer System (MVECA), which is a computer consortium. MVECA is an association of public schools within the boundaries of Clark, Clinton, Fayette, Greene, Madison, and Highland Counties. 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 five Superintendents and two Treasurers of member school districts, with four of the five Superintendents and both Treasurers elected by a majority vote of all member school districts except the Greene County Career Center. The fifth Superintendent is from the Greene County Career Center. The School District paid MVECA \$120,738 for services provided during the year. Financial information can be obtained from Thor Sage, Executive Director, at 330 East Enon Road, Yellow Springs, Ohio 45387.

**Springfield/Clark County Career Technical Center** - The Springfield/Clark County Career Technical Center (CTC) is a distinct political subdivision of the State of Ohio operated under the direction of a Board consisting of one representative from each of the seven participating school districts' elected boards, which possess its own budgeting and taxing authority. One member is appointed from the following: Clark-Shawnee Local School District, Greenon Local School District, Northeastern Local School District, Northwestern Local School District, Southeastern Local School District, Tecumseh Local School District, and the Clark County Educational Service Center. Two members are appointed from the Springfield City School District. To obtain financial information, write to the Springfield/Clark County Career Technical Center, Steven Clark, Treasurer, 1901 Selma Road, Springfield, Ohio 45505-4239.

**NORTHEASTERN LOCAL SCHOOL DISTRICT  
CLARK COUNTY**

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

**19. JOINTLY GOVERNED ORGANIZATIONS AND INSURANCE PURCHASING POOL (Continued)**

**Southwestern Ohio Educational Purchasing Council** -The Southwestern Ohio Educational Purchasing Council (SOEPC) is a purchasing cooperative made up of over 130 school districts in 18 counties. The purpose of the cooperative is to obtain prices for quality merchandise and services commonly used by schools. All member districts are obligated to pay all fees, charges, or other assessments as established by the SOEPC. Each member district has one voting representative. Title to any and all equipment, furniture and supplies purchased by the SOEPC is held in trust for the member districts by the Fiscal Agent. Any district withdrawing from the SOEPC shall forfeit its claim to any and all SOEPC assets. 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. To obtain financial information, write to the Southwestern Ohio Educational Purchasing Council, Ken Swink, who serves as Director, at 303 Corporate Center Drive, Suite 208, Vandalia, Ohio 45377.

**B. Insurance Purchasing Pool**

**Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan** - The School District participates in the Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool. The GRP's business and affairs are conducted by a fourteen member committee consisting of various GRP representatives that are elected by the general assembly. Either the superintendent or treasurer from each participating school district serves on the general assembly. Each year, the participating school districts pay an enrollment fee to the GRP to cover the costs of administering the program.

**20. SET-ASIDE CALCULATION**

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

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

	<b>Capital Acquisition</b>
Set-aside Reserve Balance as of June 30, 2016	\$ -
Current Year Set-aside Requirement	605,131
Current Year Offsets	(462,056)
Qualifying Disbursements	(402,717)
Totals	<u>(259,642)</u>
 Set-aside Balance Carried Forward to Future Fiscal Years	 <u>\$ -</u>



**NORTHEASTERN LOCAL SCHOOL DISTRICT  
CLARK COUNTY**

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

**21. CONTINGENCIES**

**A. Grants**

The School District received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2017.

**B. Litigation**

The School District's attorney estimates that any potential claims against the District not covered by insurance resulting from all other litigation would not materially affect the financial statements of the District.

**22. SIGNIFICANT COMMITMENTS**

**A. Commitments**

The School District had no significant contractual commitments as of June 30, 2017.

**B. Encumbrances**

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of funds are recorded in order to reserve that portion of the applicable appropriation, is employed in governmental funds. Encumbrances are reported as a component of assigned, restricted, or committed fund balances since they do not constitute expenditure or liabilities. Outstanding encumbrances in governmental funds as of June 30, 2017 were as follows:

<b>Fund Type</b>	<b>Encumbrances</b>
General	\$238,113
Permanent Improvement	8,000
Other Governmental	14,197
<b>Total</b>	<b>\$260,310</b>

**23. INTERFUND RECEIVABLES/PAYABLES**

An interfund receivable and payable of \$64,934 reported within the General Fund and Other Governmental Funds respectively, represents the amount due to the General Fund from:

Food Service Fund	\$ 13,985
High Schools That Work Grant	6,820
Idea Title VIB	44,129
<b>Total</b>	<b>\$ 64,934</b>

The negative cash balance reported within the High Schools That Work Grant and Idea Title VIB funds is due to the timing of receipts of federal grant cash requests and state grant requests. The General Fund loaned the food service fund monies to purchase a point of sale system in fiscal year 2016.

**NORTHEASTERN LOCAL SCHOOL DISTRICT  
CLARK COUNTY**

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

**24. FUND BALANCE**

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

The constraints placed on fund balance for the major governmental funds and all other governmental funds are presented below:

	<b>General Fund</b>	<b>Permanent Improvement</b>	<b>Other Governmental Funds</b>	<b>Total</b>
Non-spendable:				
Inventory	\$75,613		\$11,465	87,078
Prepaid Items	6,643		3,285	9,928
	<u>82,256</u>		<u>14,750</u>	<u>97,006</u>
Restricted for:				
Underground Storage Tank	11,000			11,000
Permanent Improvements		\$315,446		315,421
Debt Retirement			964,876	964,876
Union Club Scholarship			2,500	2,500
Special Trust			28,144	28,164
District Managed Student Activities			16,451	16,451
Auxiliary Services			7,609	7,609
High Schools That Work Grant			4,650	4,650
South Vienna Phonics			601	601
Title VI-R Class Reduction			4	4
Total Restricted	<u>11,000</u>	<u>315,446</u>	<u>1,024,835</u>	<u>1,351,281</u>
Assigned for:				
Future Appropriations	1,270,309			1,270,309
Public School Support	124,104			124,104
District 5K Fund			5,770	5,770
Hattie Farrell Memorial Fund			2,284	2,284
Latchkey			111,007	111,007
Other Purposes	244,283			244,283
Total Assigned	<u>1,638,696</u>		<u>119,061</u>	<u>1,757,757</u>
Unassigned (Deficit)	<u>7,610,254</u>		<u>(107,022)</u>	<u>7,503,232</u>
Total Fund Balance	<u><b>\$9,342,206</b></u>	<u><b>\$315,446</b></u>	<u><b>\$1,051,624</b></u>	<u><b>\$10,709,276</b></u>

**NORTHEASTERN LOCAL SCHOOL DISTRICT**  
**CLARK COUNTY**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2017**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF THE PROPORTIONATE SHARE OF NET PENSION LIABILITY**  
**SCHOOL EMPLOYEES RETIREMENT SYSTEM OF OHIO**  
**LAST FOUR FISCAL YEARS**

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
School District's Proportion of the Net Pension Liability	0.14999730%	0.15259930%	0.16539200%	0.1653920%
School District's Proportionate Share of the Net Pension Liability	10,978,418	8,707,464	8,370,395	9,835,331
School District's Covered Payroll	4,354,957	4,625,410	4,138,528	4,753,764
School District's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	252.09%	188.25%	202.26%	206.90%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	69.16%	69.16%	71.70%	65.52%

**NORTHEASTERN LOCAL SCHOOL DISTRICT**  
**CLARK COUNTY**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2017**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF THE PROPORTIONATE SHARE OF NET PENSION LIABILITY**  
**STATE TEACHERS' RETIREMENT SYSTEM OF OHIO**  
**LAST FOUR FISCAL YEARS**

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
School District's Proportion of the Net Pension Liability	0.13098820%	0.13164438%	0.13343537%	0.13343537%
School District's Proportionate Share of the Net Pension Liability	43,845,699	36,382,657	32,456,100	38,661,494
School District's Covered Payroll	13,919,879	13,746,314	14,345,823	14,240,285
School District's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	314.99%	264.67%	226.24%	271.49%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	72.10%	72.10%	74.70%	69.30%

NORTHEASTERN LOCAL SCHOOL DISTRICT  
CLARK COUNTY  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF CONTRIBUTIONS  
SCHOOL EMPLOYEES RETIREMENT SYSTEM OF OHIO  
LAST 10 FISCAL YEARS

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Contractually Required Contributions	\$ 668,863	\$ 609,694	\$ 609,629	\$ 573,600	\$ 657,921	\$ 621,403	\$ 535,034	\$ 806,877	\$ 558,472	\$ 438,808	\$ 550,612
Contributions in Relation to the Contractually Required Contributions	(668,863)	(609,694)	(609,629)	(573,600)	(657,921)	(621,403)	(535,034)	(806,877)	(558,472)	(438,808)	(550,612)
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
School District's Covered Payroll	\$ 4,777,593	\$4,354,957	\$4,625,410	\$4,138,528	\$4,753,764	\$4,620,097	\$4,256,436	\$5,959,210	\$5,675,528	\$4,468,573	\$5,155,543
Contributions as a Percentage of Covered Payroll	14.00%	14.00%	13.18%	13.86%	13.84%	13.45%	12.57%	13.54%	9.84%	9.82%	10.68%

NORTHEASTERN LOCAL SCHOOL DISTRICT  
CLARK COUNTY  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF CONTRIBUTIONS  
STATE TEACHERS RETIREMENT SYSTEM OF OHIO  
LAST 10 FISCAL YEARS

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Contractually Required Contributions	\$ 1,999,375	\$ 1,948,783	\$ 1,924,484	\$ 1,864,957	\$ 1,851,237	\$ 1,907,322	\$ 1,697,684	\$ 1,936,092	\$ 2,027,704	\$ 1,930,860	\$ 1,804,089
Contributions in Relation to the Contractually Required Contributions	(1,999,375)	(1,948,783)	(1,924,484)	(1,864,957)	(1,851,237)	(1,907,322)	(1,697,684)	(1,936,092)	(2,027,704)	(1,930,860)	(1,804,089)
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
School District's Covered Payroll	\$ 14,281,250	\$ 13,919,879	\$ 13,746,314	\$ 14,345,823	\$ 14,240,285	\$ 14,671,708	\$ 13,059,108	\$ 14,893,015	\$ 15,597,723	\$ 14,852,769	\$ 13,877,608
Contributions as a Percentage of Covered Payroll	14.00%	14.00%	14.00%	13.00%	13.00%	13.00%	13.00%	13.00%	13.00%	13.00%	13.00%

**NORTHEASTERN LOCAL SCHOOL DISTRICT  
CLARK COUNTY**

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

<b>FEDERAL GRANTOR Pass Through Grantor Program Title</b>	<b>Federal CFDA Number</b>	<b>Receipts</b>	<b>Non-Cash Receipts</b>	<b>Disbursements</b>	<b>Non-Cash Disbursements</b>
<b>U.S. DEPARTMENT OF AGRICULTURE</b>					
<i>Passed Through Ohio Department of Education</i>					
Child Nutrition Cluster:					
School Breakfast Program	10.553	\$ 60,581	\$ -	\$ 60,581	
National School Lunch Program					
Cash Assistance	10.555	375,447	-	375,447	
Non-Cash Assistance	10.555	-	110,096	-	110,096
Total National School Lunch Program		<u>375,447</u>	<u>110,096</u>	<u>375,447</u>	<u>110,096</u>
Total Child Nutrition Cluster		<u>436,028</u>	<u>110,096</u>	<u>436,028</u>	<u>110,096</u>
Total U.S. Department of Agriculture		<u><b>436,028</b></u>	<u><b>110,096</b></u>	<u><b>436,028</b></u>	<u><b>110,096</b></u>
<b>U.S. DEPARTMENT OF EDUCATION</b>					
<i>Passed Through Ohio Department of Education</i>					
Title I Grants to Local Educational Agencies	84.010	403,265	-	374,380	
Special Education Cluster (IDEA):					
Special Education Grants to States	84.027	558,783	-	568,429	
Special Education Preschool Grant	84.173	17,962	-	17,962	
Total Special Education Cluster (IDEA)		<u>576,745</u>	<u>-</u>	<u>586,391</u>	
Supporting Effective Instruction State Grant (formerly Improving Teacher Quality State Grant)	84.367	50,398	-	50,253	
Total U.S. Department of Education		<u>1,030,408</u>	<u>-</u>	<u>1,011,024</u>	<u>-</u>
<b>Total Federal Assistance</b>		<u><b>\$ 1,466,436</b></u>	<u><b>\$ 110,096</b></u>	<u><b>\$ 1,447,052</b></u>	<u><b>\$ 110,096</b></u>

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

**NORTHEASTERN LOCAL SCHOOL DISTRICT  
CLARK COUNTY**

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

**NOTE A – BASIS OF PRESENTATION**

The accompanying Schedule of Receipts and Expenditures of Federal Awards (the Schedule) includes the federal award activity of Northeastern Local School District (the 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 School District, it is not intended to and does not present the financial position, changes in net position, or cash flow of the School District.

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

Expenditures reported on the Schedule are reported on the cash basis of accounting. Such expenditures are recognized following, as applicable, either the cost principles contained in OMB Circular A-87 *Cost Principles for State, Local, and Indian Tribal Governments* (codified in 2 CFR Part 225), or 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 School District has elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

**NOTE C – CHILD NUTRITION CLUSTER**

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

**NOTE D – FOOD DONATION PROGRAM**

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





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740.695.1569

1310 Market St., Suite 300  
Wheeling, WV 26003  
304.232.1358

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

February 23, 2018

Northeastern Local School District  
Clark County  
1414 Bowman Road  
Springfield, Ohio 45502

To the Board of Education:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the **Northeastern Local School District**, Clark County, (the School District) as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements and have issued our report thereon dated February 23, 2018.

***Internal Control Over Financial Reporting***

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Therefore, unidentified material weaknesses or significant deficiencies may exist. We did identify a certain deficiency in internal control, described in the accompanying schedule of audit findings that we consider a material weakness. We consider finding 2017-001 to be a material weakness.

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***Compliance and Other Matters***

As part of reasonably assuring whether the School District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

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

The District's response to the finding identified in our audit is described in the accompanying schedule of audit findings. We did not audit the District's response and, accordingly, we express no opinion on it.

***Purpose of this Report***

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



**Perry and Associates**  
Certified Public Accountants, A.C.  
Marietta, Ohio



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

February 23, 2018

Northeastern Local School District  
Clark County  
1414 Bowman Road  
Springfield, Ohio 45502

To the Board of Education:

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

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

***Management's Responsibility***

The School District's Management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

***Auditor's Responsibility***

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

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

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***Opinion on the Major Federal Program***

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

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

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

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

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

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



**Perry and Associates**  
Certified Public Accountants, A.C.  
Marietta, Ohio

**NORTHEASTERN LOCAL SCHOOL DISTRICT  
CLARK COUNTY**

**SCHEDULE OF AUDIT FINDINGS  
2 CFR § 200.515  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

**1. SUMMARY OF AUDITOR'S RESULTS**

<i>(d)(1)(i)</i>	<b>Type of Financial Statement Opinion</b>	Unmodified
<i>(d)(1)(ii)</i>	<b>Were there any material weaknesses in internal control reported at the financial statement level (GAGAS)?</b>	Yes
<i>(d)(1)(ii)</i>	<b>Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?</b>	No
<i>(d)(1)(iii)</i>	<b>Was there any reported material noncompliance at the financial statement level (GAGAS)?</b>	No
<i>(d)(1)(iv)</i>	<b>Were there any material weaknesses in internal control reported for major federal programs?</b>	No
<i>(d)(1)(iv)</i>	<b>Were there any significant deficiencies in internal control reported for major federal programs?</b>	No
<i>(d)(1)(v)</i>	<b>Type of Major Programs' Compliance Opinion</b>	Unmodified
<i>(d)(1)(vi)</i>	<b>Are there any reportable findings under 2 CFR § 200.516(a)?</b>	No
<i>(d)(1)(vii)</i>	<b>Major Programs (list):</b>	Special Education Cluster (IDEA), CFDA #84.027 and #84.173
<i>(d)(1)(viii)</i>	<b>Dollar Threshold: Type A/B Programs</b>	Type A: > \$ 750,000 Type B: all others
<i>(d)(1)(ix)</i>	<b>Low Risk Auditee under 2 CFR § 200.520?</b>	Yes

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

**FINDING NUMBER 2017-001**

**Material Weakness**

**Financial Statement Presentation**

When designing the public office's system of internal control and the specific control activities, management should consider ensuring that accounting records are properly designed, verifying the existence and valuation of assets and liabilities and periodically reconcile them to the accounting records, and performing analytical procedures to determine the reasonableness of financial data. The following conditions existed in the School District's financial reporting:

**FOR THE FISCAL YEAR ENDED JUNE 30, 2017  
NORTHEASTERN LOCAL SCHOOL DISTRICT  
CLARK COUNTY**

**SCHEDULE OF AUDIT FINDINGS  
2 CFR § 200.515  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

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

**FINDING NUMBER 2017-001 (Continued)**

**Material Weakness (Continued)**

**Financial Statement Presentation (Continued)**

Statement of Net Position:

- Equity in Pooled Cash and Cash Equivalents on the Statement of Net Position was understated by \$222,699 and should have been \$9,787,044.
- Deferred Outflows of Resources – Pension was understated by \$372,421 and should have been \$9,866,689.
- Intergovernmental Payable was understated by \$222,699 and should have been \$810,365
- Net Pension Liability was overstated by \$185,038 and should have been \$54,824,117.
- Deferred Outflows of Resources – Pension was understated by \$227,100 and should have been \$898,581.
- Unrestricted Net Position was overstated by \$330,359 and should have been (\$37,226,679).

Statement of Revenues, Expenses and Changes in Net Position:

- There were two Statements of Revenues, Expenses and Changes in Net Position in the Hinkle report filing.
- General Fund Miscellaneous Revenue was understated by \$35,749 and should have been \$29,376.

Notes to the Financial Statements:

- The Proportionate Share of Net Pension Liability was misstated in Note 11 – Defined Benefit Pension Plans.
- The Pension Expense was misstated in Note 11 – Defined Benefit Pension Plans.
- The net difference between projected and actual earnings on pension plan investments was not reported in Note 11 – Defined Benefit Pension Plans.
- The difference between expected and actual experience was misstated in Note 11 – Defined Benefit Pension Plans.
- The changes in assumptions was not reported in Note 11 – Defined Benefit Pension Plans.
- The changes in proportion and differences between School District contributions and proportionate share of contributions was misstated in Note 11 – Defined Benefit Pension Plans.
- The amortization of pension expense was misstated in Note 11 – Defined Benefit Pension Plans.
- The Long-Term Obligations footnote was not completed.
- The investments footnote breakout did not agree to supporting documentation.
- Pension footnotes were not the updated information for Actuarial Assumptions.
- The Schedule of Contributions for STRS and SERS was not updated for 2017.
- A portion of the note disclosures were not legible.

The School District made all the adjustments noted above to the Financial Statements and Notes.

FOR THE FISCAL YEAR ENDED JUNE 30, 2017  
NORTHEASTERN LOCAL SCHOOL DISTRICT  
CLARK COUNTY

SCHEDULE OF AUDIT FINDINGS  
2 CFR § 200.515  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

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

**FINDING NUMBER 2017-001 (Continued)**

**Material Weakness (Continued)**

**Financial Statement Presentation (Continued)**

During the audit, several significant revisions to the financial statements and note disclosures were made that resulted in inefficiencies during the audit. All financial statements should be thoroughly reviewed to ensure completeness, accuracy and consistency of information. We recommend consulting with a qualified compiler to ensure a streamlined audit.

**3. FINDINGS FOR FEDERAL AWARDS**

**None.**

**NORTHEASTERN LOCAL SCHOOL DISTRICT  
CLARK COUNTY  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

**CORRECTIVE ACTION PLAN  
2 CFR § 200.515**

<b>Finding Number</b>	<b>Planned Corrective Action</b>	<b>Anticipated Completion Date</b>	<b>Responsible Contact Person</b>
2017-001	The Web-GAAP files will be updated to have the Worker's Comp internal service fund mapped to the general fund and a corresponding entry for intergovernmental payable. After completion of the annual report, the Treasurer will review the report to ensure the completeness and accuracy of the report.	October 31, 2018	Pam Mustovich, Interim Treasurer





# Dave Yost • Auditor of State

**NORTHEASTERN 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  
APRIL 19, 2018**