



OHIO AUDITOR OF STATE
KEITH FABER



**SOUTHWEST LOCAL SCHOOL DISTRICT
HAMILTON COUNTY**

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OHIO AUDITOR OF STATE KEITH FABER



INDEPENDENT AUDITOR'S REPORT

Southwest Local School District
Hamilton County
230 Elm Street
Harrison, Ohio 45030

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 the Southwest Local School District, Hamilton County, Ohio (the District), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for 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 District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

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

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 the Southwest Local School District, Hamilton County, Ohio, as of June 30, 2018, and the respective changes in financial position thereof for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 21 to the financial statements, during 2018, the District adopted new accounting guidance in Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. We did not modify our opinion regarding this matter.

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, a required budgetary comparison schedule for the General Fund and schedules of net pension and other post-employment benefit liabilities and pension and other post-employment benefit 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 District's basic financial statements taken as a whole.

The Schedule of Expenditures of Federal Awards presents additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards and is 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 this information to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling this information 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 information 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 25, 2019 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



Keith Faber
Auditor of State
Columbus, Ohio

February 25, 2019

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Southwest Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2018
(Unaudited)

The discussion and analysis of Southwest Local School District's financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2018. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the District's performance.

Financial Highlights

Key financial highlights for fiscal year 2018 are as follows:

- In total, net position increased \$44,247,722.
- General revenues accounted for \$63,797,641 in revenue or 90% of all revenues. Program specific revenues in the form of charges for services and sales and operating grants and contributions accounted for \$7,121,609 or 10% of total revenues of \$70,919,250.
- The District had \$26,671,528 in expenses related to governmental activities; only \$7,121,609 of these expenses were offset by program specific charges for services and operating grants or contributions. General revenues of \$63,797,641 were also used to provide for these programs.

Overview of the Financial Statements

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

The *Statement of Net position* and *Statement of Activities* provide information about the activities of the whole District, presenting both an aggregate view of the District's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the District's most significant funds with all other nonmajor funds presented in total in one column. The General, Building and Classroom Facilities Funds are the major funds of the District.

Government-wide Financial Statements

While this document contains the large number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2018?" The Government-wide Financial Statements answer this question. These statements include *all assets and deferred outflows of resources*, and *liabilities and deferred inflows of resources* 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.

**Southwest Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2018
(Unaudited)**

These two statements report the District's *net position* and changes in net position. This change in net position is important because it tells the reader that, for the District as a whole, the financial position has improved or diminished. The causes of this change may be the result of many factors, both financial and non-financial. Non-financial factors include the District's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, required educational programs and other factors.

In the Government-wide Financial Statements, the overall financial position of the District is presented in the following manner:

- **Governmental Activities** – Most of the District's programs and services are reported here including instruction, support services, operation of non-instructional services, extracurricular activities, and interest and fiscal charges.

Fund Financial Statements

The analysis of the District's major funds is presented in the Fund Financial Statements. Fund financial statements provide detailed information about the District's major funds. The District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the District's most significant funds.

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

Fiduciary Funds Fiduciary Funds are used to account for resources held for the benefits of parties outside the government. Fiduciary Funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the District's own programs.

The District as a Whole

Recall that the Statement of Net position provides the perspective of the District as a whole.

Table 1 provides a summary of the District's net position for 2018 compared to 2017:

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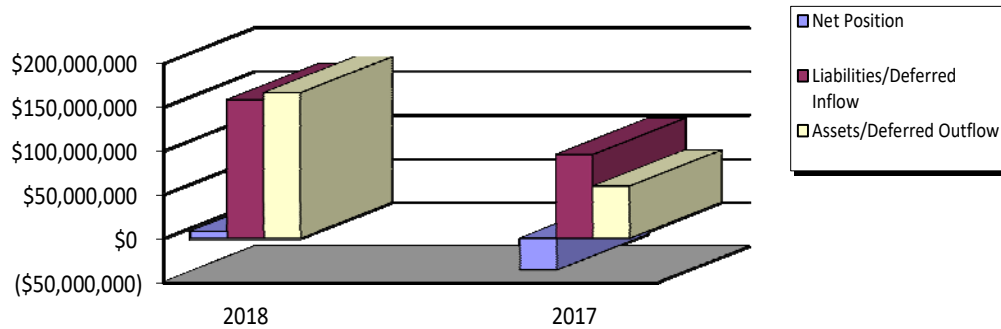
Southwest Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2018
(Unaudited)

Table 1
Net Position

	Governmental Activities	
	2018	2017 - Restated
Assets:		
Current and Other Assets	\$134,138,882	\$29,616,572
Capital Assets	19,190,432	19,530,005
Total Assets	<u>153,329,314</u>	<u>49,146,577</u>
Deferred Outflows of Resources:		
Deferred Charge on Refunding	2,795	5,590
OPEB	391,958	57,662
Pension	12,350,464	10,258,348
Total Deferred Outflows of Resources	<u>12,745,217</u>	<u>10,321,600</u>
Liabilities:		
Other Liabilities	3,882,801	3,570,847
Long-Term Liabilities	140,242,795	84,018,436
Total Liabilities	<u>144,125,596</u>	<u>87,589,283</u>
Deferred Inflows of Resources:		
Property Taxes	10,646,060	7,205,000
Grants and Other Taxes	498,854	490,458
OPEB	992,968	0
Pension	1,832,067	452,172
Total Deferred Inflows of Resources	<u>13,969,949</u>	<u>8,147,630</u>
Net Position		
Net Investment in Capital Assets	6,300,971	5,534,116
Restricted	34,046,373	4,669,145
Unrestricted	<u>(32,368,358)</u>	<u>(46,471,997)</u>
Total Net Position	<u><u>\$7,978,986</u></u>	<u><u>(\$36,268,736)</u></u>

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**Southwest Local School District
Management’s Discussion and Analysis
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(Unaudited)**



The net pension liability (NPL) is one of the largest single liabilities reported by the District at June 30, 2018 and is reported pursuant to GASB Statement 68, “Accounting and Financial Reporting for Pensions - an Amendment of GASB Statement 27.” For fiscal year 2018, the District adopted GASB Statement 75, “Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions,” which significantly revises accounting for costs and liabilities related to other postemployment benefits (OPEB). For reasons discussed below, many end users of these financial statements will gain a clearer understanding of the District’s actual financial condition by adding deferred inflows related to pension and OPEB, the net pension liability and the net OPEB liability to the reported net position and subtracting deferred outflows related to pension and OPEB.

Governmental Accounting Standards Board standards are national and apply to all government financial reports prepared in accordance with generally accepted accounting principles. Prior accounting for pensions (GASB 27) and postemployment benefits (GASB 45) focused on a funding approach. This approach limited pension and OPEB costs to contributions annually required by law, which may or may not be sufficient to fully fund each plan’s *net pension liability* or *net OPEB liability*. GASB 68 and GASB 75 take an earnings approach to pension and OPEB accounting; however, the nature of Ohio’s statewide pension/OPEB plans and state law governing those systems requires additional explanation in order to properly understand the information presented in these statements.

GASB 68 and GASB 75 require the net pension liability and the net OPEB liability to equal the District’s proportionate share of each plan’s collective:

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

GASB notes that pension and OPEB 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 and other postemployment benefits. GASB noted that the unfunded portion of this promise is a present obligation of the government, part of a bargained-for benefit to the employee, and should accordingly be reported by the government as a liability since they received the benefit of the exchange. However, the District is not responsible for certain key factors affecting the balance of these liabilities. 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

Southwest Local School District
Management's Discussion and Analysis
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the Governor. Benefit provisions are also determined by State statute. The Ohio revised Code permits, but does not require the retirement systems to provide healthcare to eligible benefit recipients. The retirement systems may allocate a portion of the employer contributions to provide for these OPEB benefits.

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 retirement system. In Ohio, there is no legal means to enforce the unfunded liability of the pension/OPEB plan *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 retirement system is responsible for the administration of the pension and OPEB plans.

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 or the net OPEB liability. As explained above, changes in benefits, contribution rates, and return on investments affect the balance of these liabilities, 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 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 and the net OPEB liability are satisfied, these liabilities are separately identified within the long-term liability section of the statement of net position.

In accordance with GASB 68 and GASB 75, the District's statements prepared on an accrual basis of accounting include an annual pension expense and an annual OPEB expense for their proportionate share of each plan's *change* in net pension liability and net OPEB liability, respectively, not accounted for as deferred inflows/outflows.

As a result of implementing GASB 75, the District is reporting a net OPEB liability and deferred inflows/outflows of resources related to OPEB on the accrual basis of accounting. This implementation also had the effect of restating net position at June 30, 2017, from (\$25,796,730) to (\$36,268,736).

Over time, net position can serve as a useful indicator of a government's financial position. At June 30, 2018, the District's assets and deferred outflows exceeded liabilities and deferred inflows by \$7,978,986.

At year-end, capital assets represented 12.5% of total assets. Capital assets include land, land improvements, buildings and improvements, and equipment. Capital assets, net of related debt to acquire the assets at June 30, 2018, were \$6,300,971. These capital assets are used to provide services to the students and are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the District's net position, \$34,046,373, represents resources that are subject to external restriction on how they must be used. The external restriction will not affect the availability of fund resources for future use.

Current and Other Assets increased mainly due to an increase cash and investments. Long Term Liabilities increased due debt being issued during the fiscal year..

Southwest Local School District
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Table 2 shows the change in net position for fiscal year 2018 and 2017.

Table 2
Changes in Net Position

	Governmental Activities	
	2018	2017
Revenues:		
Program Revenues		
Charges for Services and Sales	\$2,199,057	\$1,965,574
Operating Grants and Contributions	4,922,552	5,068,522
General Revenue:		
Income Taxes	4,660,562	4,394,364
Property Taxes	16,199,353	14,599,693
Grants and Entitlements	14,599,072	14,099,275
Grants and Entitlements for Capital Construction	27,102,719	0
Other	1,235,935	986,342
Total Revenues	<u>70,919,250</u>	<u>41,113,770</u>
Program Expenses:		
Instruction	15,360,354	25,803,597
Support Services:		
Pupil and Instructional Staff	1,033,886	2,362,234
General and School Administrative and Fiscal	2,402,305	3,893,282
Operations and Maintenance	3,423,989	3,145,353
Pupil Transportation	766,484	1,542,365
Central	168,234	138,314
Operation of Non-Instructional Services	985,241	1,793,131
Extracurricular Activities	518,006	912,066
Interest and Fiscal Charges	2,013,029	559,717
Total Expenses	<u>26,671,528</u>	<u>40,150,059</u>
Change in Net Position	44,247,722	963,711
Beginning Net Position, Restated	<u>(36,268,736)</u>	<u>N/A</u>
Ending Net Position	<u>\$7,978,986</u>	<u>(\$36,268,736)</u>

The information necessary to restate the 2017 beginning balances and the 2017 OPEB expense amounts for the effects of the initial implementation of GASB 75 is not available. Therefore, 2017 functional expenses still include OPEB expense of \$57,662 computed under GASB 45. GASB 45 required recognizing pension expense equal to the contractually required contributions to the plan. Under GASB 75, OPEB

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expense represents additional amounts earned, adjusted by deferred inflows/outflows. The contractually required contribution is no longer a component of OPEB expense. Under GASB 75, the 2018 statements report negative OPEB expense of \$1,496,883. Consequently, in order to compare 2018 total program expenses to 2017, the following adjustments are needed:

Total 2018 operating expenses under GASB 75	\$26,671,528
Negative OPEB expense under GASB 75	1,496,883
2018 contractually required contribution	80,833
Adjusted 2018 operating expenses	28,249,244
Total 2017 operating expenses under GASB 45	40,150,059
Change in operating expenses not related to OPEB	(\$11,900,815)

The District revenues are mainly from three sources. Property taxes levied for general, special revenue and debt service purposes, grants and entitlements and grants and entitlements for capital construction comprised 82% of the District’s revenues for governmental activities.

The District depends greatly on property taxes as a revenue source. The unique nature of property taxes in Ohio creates the need to routinely seek voter approval for operating funds. The overall revenues generated by a levy will not increase solely as a result of inflation. As an example, a homeowner with a home valued at \$100,000 and taxed at 1.0 mill would pay \$35.00 annually in taxes. If three years later the home was reappraised and increased to \$200,000 (and this inflationary increase in value is comparable to other property owners) the effective tax rate would become .5 mills and the owner would still pay \$35.00.

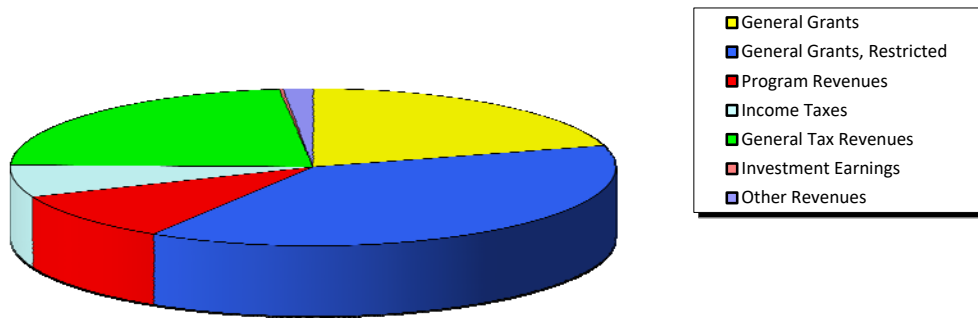
Thus, Ohio districts do not collect additional property taxes on the increase in property value due to the increase in appraisal value and must regularly return to the voters to maintain a constant level of service. Property taxes made up 23% of revenue for governmental activities for the District in fiscal year 2018.

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**Southwest Local School District
Management’s Discussion and Analysis
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**Governmental Activities
Revenue Sources**

Revenue Sources	2018	Percentage
General Grants	\$14,599,072	20.6%
General Grants, Restricted	27,102,719	38.2%
Program Revenues	7,121,609	10.0%
Income Taxes	4,660,562	6.6%
General Tax Revenues	16,199,353	22.8%
Investment Earnings	108,888	0.2%
Other Revenues	1,127,047	1.6%
Total Revenue Sources	<u>\$70,919,250</u>	<u>100.0%</u>



Instruction comprises 58% of total governmental program expenses. Support services expenses were 29% of total governmental program expenses. All other expenses and interest and fiscal charges were 13%. Interest expense was attributable to the outstanding bond and borrowing for capital projects.

Total revenues increased from the prior year mainly due to an increase in grants and entitlements revenue. Total expenses decreased mainly due to changes related to net pension liability and other post employment benefits liability.

Governmental Activities

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

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**Southwest Local School District
Management’s Discussion and Analysis
For the Fiscal Year Ended June 30, 2018
(Unaudited)**

**Table 3
Governmental Activities**

	Total Cost of Services		Net Cost of Services	
	2018	2017	2018	2017
Instruction	\$15,360,354	\$25,803,597	(\$10,596,064)	(\$21,209,383)
Support Services:				
Pupil and Instructional Staff	1,033,886	2,362,234	(924,241)	(2,319,787)
General and School Administrative and Fiscal	2,402,305	3,893,282	(2,393,251)	(3,892,772)
Operations and Maintenance	3,423,989	3,145,353	(3,276,517)	(2,963,768)
Pupil Transportation	766,484	1,542,365	(733,818)	(1,512,499)
Central	168,234	138,314	(157,434)	(127,514)
Operation of Non-Instructional Services	985,241	1,793,131	709,777	33,981
Extracurricular Activities	518,006	912,066	(165,342)	(564,504)
Interest and Fiscal Charges	2,013,029	559,717	(2,013,029)	(559,717)
Total Expenses	<u>\$26,671,528</u>	<u>\$40,150,059</u>	<u>(\$19,549,919)</u>	<u>(\$33,115,963)</u>

The District’s Major Funds

The District has three major governmental funds: the General Fund, Building Fund and the Classroom Facilities Fund. Assets of these funds comprised \$122,504,101 (91%) of the total \$134,138,882 governmental funds’ assets.

General Fund: Fund balance at June 30, 2018 was \$10,440,574, a decrease in fund balance of \$2,080,710 from 2017. The primary reason for the decrease in fund balance was due to a decrease in property tax revenue.

Building Fund: Fund balance at June 30, 2018 was \$14,162,738, an increase in fund balance of \$14,162,738 from 2017. The primary reason for the increase was due to the issuance of long-term capital related debt.

Classroom Facilities Fund: Fund balance at June 30, 2018 was \$57,723,335, an increase in fund balance of \$57,723,335 from 2017. The primary reason for the increase was due to the issuance of long-term capital related debt.

General Fund Budgeting Highlights

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

During the course of fiscal year 2018, the District amended its general fund; however none of the amendments were significant. The District uses site-based budgeting and the budgeting systems are designed to tightly control total site budgets but provide flexibility for site management. During the

**Southwest Local School District
Management’s Discussion and Analysis
For the Fiscal Year Ended June 30, 2018
(Unaudited)**

course of the year, the District revised the budget in an attempt to deal with unexpected changes in revenues and expenditures.

For the General Fund, original budget basis revenue was \$30,813,733 and final budget basis revenue was \$31,667,482. Final budget expenditures were \$37,073,519, compared to actual budgeted expenditures of \$36,755,843. Of the \$317,626 difference, most was due to an overestimate of instruction expenditures.

The General Fund’s ending unobligated cash balance was \$7,471,883.

Capital Assets and Debt Administration

Capital Assets

At fiscal year end, the District had \$19,190,432 invested in land, land improvements, buildings and improvements and equipment. Table 4 shows fiscal year 2018 balances compared to fiscal year 2017:

**Table 4
Capital Assets at Year End
(Net of Depreciation)**

	Governmental Activities	
	2018	2017
Land	\$2,990,625	\$2,990,625
Land Improvements	91,327	138,866
Buildings and Improvements	14,882,710	15,616,475
Equipment	1,225,770	784,039
Total Net Capital Assets	<u>\$19,190,432</u>	<u>\$19,530,005</u>

The overall decrease in capital assets is due to current year depreciation expense exceeding current year capital asset additions.

See Note 6 to the basic financial statements for further details on the District’s capital assets.

Debt

At June 30, 2018, the District had \$87,045,240 in debt outstanding, \$2,618,687 due within one year. Table 5 summarizes bonds and notes outstanding.

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**Southwest Local School District
Management’s Discussion and Analysis
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(Unaudited)**

**Table 5
Outstanding Debt at Year End**

	Governmental Activities	
	2018	2017
<u>General Obligation Bonds and Notes:</u>		
2017 Refunded Bonds	\$8,005,000	\$8,005,000
2017 Refunded Bonds - Premium	804,829	885,312
2008 Refunding Bonds:		
Current Interest Bonds A	0	35,000
Capital Appreciation Bonds A	55,000	55,000
Accretion of Interest A	342,192	290,290
Current Interest Bonds B	0	40,000
Capital Appreciation Bonds B	50,000	50,000
Accretion of Interest B	338,651	284,403
2012 Refunding School Improvement Bonds	785,000	1,545,000
Premium on 2008 A and B Refunding Bonds	10,053	20,106
HB264 Series 2011	2,815,000	2,815,000
2018 Series Bonds	61,800,000	0
Premium on Series Bond	1,772,141	0
2018 School Improvement Bond Anticipation Note	9,900,000	0
Capital Lease	367,374	550,061
Total	<u>\$87,045,240</u>	<u>\$14,575,172</u>

See Notes 7 and 8 to the basic financial statements for further details on the District’s long-term obligations.

For the Future

In July 2017, Governor John Kasich signed the 2018-19 biennial budget (House Bill 49). This budget bill continues the current state foundation funding formula for school districts in Ohio. Currently, Southwest Local Schools is on the “cap”, meaning there is no guaranteed increases for future years. Fiscal years 2020 and beyond are not known at this time, meaning that items such as state funding, tangible personal property reimbursement, and medical rates are not known at this time.

Contacting the District’s Financial Management

This financial report is designed to provide our citizens, taxpayers, and investors and creditors with a general overview of the District’s finances and to show the District’s accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Treasurer at Southwest Local School District, 230 South Elm Street, Harrison, Ohio 45030.

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Southwest Local School District
Statement of Net Position
June 30, 2018

	Governmental Activities
Assets:	
Equity in Pooled Cash and Investments	\$85,838,360
Cash and Cash Equivalents with Fiscal Agent	1,285,000
Receivables (Net):	
Taxes	18,893,437
Accounts	100,890
Interest	200,338
Intergovernmental	27,820,857
Nondepreciable Capital Assets	2,990,625
Depreciable Capital Assets, Net	<u>16,199,807</u>
 Total Assets	 <u>153,329,314</u>
Deferred Outflows of Resources:	
Deferred Charge on Refunding Pension	2,795
OPEB	12,350,464
	<u>391,958</u>
 Total Deferred Outflows of Resources	 <u>12,745,217</u>
Liabilities:	
Accounts Payable	58,265
Accrued Wages and Benefits	3,714,660
Accrued Interest Payable	109,876
Long-Term Liabilities:	
Due Within One Year	2,979,268
Due In More Than One Year	
Net Pension Liability	39,201,984
Net OPEB Liability	8,293,280
Other Amounts	<u>89,768,263</u>
 Total Liabilities	 <u>144,125,596</u>
Deferred Inflows of Resources:	
Property Taxes	10,646,060
Grants and Other Taxes	498,854
Pension	1,832,067
OPEB	<u>992,968</u>
 Total Deferred Inflows of Resources	 <u>13,969,949</u>
Net Position:	
Net Investment in Capital Assets	6,300,971
Restricted for:	
Debt Service	7,759,790
Capital Projects	25,516,651
Other Local Grants	13,653
Extracurricular	78,365
Food Service	370,826
Auxiliary Services	29,686
Classroom Facilities Maintenance	277,402
Unrestricted	<u>(32,368,358)</u>
 Total Net Position	 <u>\$7,978,986</u>

See accompanying notes to the basic financial statements.

Southwest Local School District
Statement of Activities
For the Fiscal Year Ended June 30, 2018

	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position
		Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities
Governmental Activities:				
Instruction:				
Regular	\$9,279,007	\$664,419	\$595,609	(\$8,018,979)
Special	5,022,557	108,807	2,438,464	(2,475,286)
Vocational	5,147	0	4,987	(160)
Other	1,053,643	363,256	588,748	(101,639)
Support Services:				
Pupil	793,677	0	32,912	(760,765)
Instructional Staff	240,209	0	76,733	(163,476)
General Administration	20,289	0	0	(20,289)
School Administration	1,504,969	0	479	(1,504,490)
Fiscal	877,047	0	8,575	(868,472)
Operations and Maintenance	3,423,989	69,668	77,804	(3,276,517)
Pupil Transportation	766,484	4,125	28,541	(733,818)
Central	168,234	0	10,800	(157,434)
Operation of Non-Instructional Services	985,241	636,118	1,058,900	709,777
Extracurricular Activities	518,006	352,664	0	(165,342)
Interest and Fiscal Charges	2,013,029	0	0	(2,013,029)
Total Governmental Activities	\$26,671,528	\$2,199,057	\$4,922,552	(19,549,919)

General Revenues:	
Income Taxes	4,660,562
Property Taxes Levied for:	
General Purposes	11,815,984
Special Revenue Purposes	271,225
Debt Service Purposes	4,112,144
Grants and Entitlements, Not Restricted	14,599,072
Revenue in Lieu of Taxes	446,283
Unrestricted Contributions	9,466
Investment Earnings	108,888
Grants and Entitlements for Capital Construction	27,102,719
Other Revenues	671,298
Total General Revenues	63,797,641
Change in Net Position	44,247,722
Net Position - Beginning of Year, Restated	(36,268,736)
Net Position - End of Year	\$7,978,986

See accompanying notes to the basic financial statements.

Southwest Local School District
Balance Sheet
Governmental Funds
June 30, 2018

	General	Building	Classroom Facilities	Other Governmental Funds	Total Governmental Funds
Assets:					
Equity in Pooled Cash and Investments	\$7,919,743	\$14,162,738	\$57,723,335	\$6,032,544	\$85,838,360
Cash and Cash Equivalents with Fiscal Agent	0	0	0	1,285,000	1,285,000
Receivables (Net):					
Taxes	14,792,031	0	0	4,101,406	18,893,437
Accounts	92,611	0	0	8,279	100,890
Interest	200,338	0	0	0	200,338
Intergovernmental	510,586	0	27,102,719	207,552	27,820,857
Total Assets	23,515,309	14,162,738	84,826,054	11,634,781	134,138,882
Liabilities:					
Accounts Payable	48,537	0	0	9,728	58,265
Accrued Wages and Benefits	3,371,861	0	0	342,799	3,714,660
Compensated Absences	113,602	0	0	0	113,602
Total Liabilities	3,534,000	0	0	352,527	3,886,527
Deferred Inflows of Resources:					
Property Taxes	8,582,405	0	0	2,651,406	11,233,811
Income Taxes	320,810	0	0	0	320,810
Grants and Other Taxes	498,854	0	27,102,719	207,092	27,808,665
Investment Earnings	138,666	0	0	0	138,666
Total Deferred Inflows of Resources	9,540,735	0	27,102,719	2,858,498	39,501,952
Fund Balances:					
Restricted	0	14,162,738	57,723,335	8,575,456	80,461,529
Committed	0	0	0	42,060	42,060
Assigned	1,535,924	0	0	0	1,535,924
Unassigned	8,904,650	0	0	(193,760)	8,710,890
Total Fund Balances	10,440,574	14,162,738	57,723,335	8,423,756	90,750,403
Total Liabilities, Deferred Inflows and Fund Balances	\$23,515,309	\$14,162,738	\$84,826,054	\$11,634,781	\$134,138,882

See accompanying notes to the basic financial statements.

Southwest Local School District
 Reconciliation of Total Governmental Fund Balance to
 Net Position of Governmental Activities
 June 30, 2018

Total Governmental Fund Balance \$90,750,403

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.

Capital assets used in the operation of Governmental Funds 19,190,432

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

Income Taxes	320,810	
Delinquent Property Taxes	587,751	
Interest	138,666	
Intergovernmental	<u>27,309,811</u>	
		28,357,038

In the statement of net position interest payable is accrued when
 incurred; whereas, in the governmental funds interest is
 reported as a liability only when it will require the use of
 current financial resources. (109,876)

Some liabilities reported in the statement of net position do not
 require the use of current financial resources and, therefore,
 are not reported as liabilities in governmental funds.

Compensated Absences (5,588,689)

Deferred charge on refunding associated with long-term liabilities
 that are not reported in the funds. 2,795

Deferred outflows and inflows or resources related to pensions and OPEB
 are applicable to future periods and, therefore, are not
 reported in the funds.

Deferred outflows of resources related to pensions	12,350,464	
Deferred inflows of resources related to pensions	(1,832,067)	
Deferred outflows of resources related to OPEB	391,958	
Deferred inflows of resources related to OPEB	<u>(992,968)</u>	
		9,917,387

Long-term liabilities are not due and payable in the current
 period and, therefore, are not reported in the funds.

Net Pension Liability	(39,201,984)	
Net OPEB Liability	(8,293,280)	
Other Amounts	<u>(87,045,240)</u>	
		<u>(134,540,504)</u>

Net Position of Governmental Activities \$7,978,986

See accompanying notes to the basic financial statements.

Southwest Local School District
Statement of Revenues, Expenditures
and Changes in Fund Balance
Governmental Funds
For the Fiscal Year Ended June 30, 2018

	General	Building	Classroom Facilities	Other Governmental Funds	Total Governmental Funds
Revenues:					
Property and Other Taxes	\$11,773,966	\$0	\$0	\$4,275,036	\$16,049,002
Income Taxes	4,643,322	0	0	0	4,643,322
Tuition and Fees	1,140,607	0	0	0	1,140,607
Investment Earnings	(213,354)	56,010	130,056	4,170	(23,118)
Intergovernmental	16,434,446	0	0	3,229,924	19,664,370
Extracurricular Activities	80,832	0	0	271,732	352,564
Charges for Services	0	0	0	696,576	696,576
Revenue in Lieu of Taxes	446,259	0	0	24	446,283
Other Revenues	444,152	0	0	10,750	454,902
Total Revenues	34,750,230	56,010	130,056	8,488,212	43,424,508
Expenditures:					
Current:					
Instruction:					
Regular	17,603,282	0	0	694,495	18,297,777
Special	5,955,565	0	0	1,005,369	6,960,934
Vocational	5,147	0	0	0	5,147
Other	1,053,643	0	0	0	1,053,643
Support Services:					
Pupil	1,554,581	0	0	35,649	1,590,230
Instructional Staff	308,179	0	0	71,703	379,882
General Administration	33,257	0	0	0	33,257
School Administration	2,854,842	0	33,091	510	2,888,443
Fiscal	1,145,062	0	0	4,475	1,149,537
Operations and Maintenance	3,418,984	0	0	146,091	3,565,075
Pupil Transportation	1,691,766	0	0	0	1,691,766
Central	154,254	0	0	10,800	165,054
Operation of Non-Instructional Services	1,005	0	0	1,568,659	1,569,664
Extracurricular Activities	632,271	0	0	281,841	914,112
Capital Outlay	216,418	0	0	0	216,418
Debt Service:					
Principal Retirement	183,687	0	0	835,000	1,018,687
Interest and Fiscal Charges	9,725	0	0	1,088,011	1,097,736
Bond Issuance Cost	0	0	878,781	37,110	915,891
Total Expenditures	36,821,668	0	911,872	5,779,713	43,513,253
Excess of Revenues Over (Under) Expenditures	(2,071,438)	56,010	(781,816)	2,708,499	(88,745)
Other Financing Sources (Uses):					
Proceeds from Sale of Capital Assets	235,072	0	0	0	235,072
Issuance of Long-Term Capital-Related Debt	0	14,106,721	57,593,279	0	71,700,000
Premium on Bonds Issued	0	0	911,872	937,390	1,849,262
Transfers In	0	0	0	244,344	244,344
Transfers (Out)	(244,344)	0	0	0	(244,344)
Total Other Financing Sources (Uses)	(9,272)	14,106,721	58,505,151	1,181,734	73,784,334
Net Change in Fund Balance	(2,080,710)	14,162,731	57,723,335	3,890,233	73,695,589
Fund Balance - Beginning of Year	12,521,284	7	0	4,533,523	17,054,814
Fund Balance - End of Year	\$10,440,574	\$14,162,738	\$57,723,335	\$8,423,756	\$90,750,403

See accompanying notes to the basic financial statements.

Southwest Local School District
 Reconciliation of the Statement of Revenues, Expenditures, and Changes
 in Fund Balance of Governmental Funds to the Statement of Activities
 For the Fiscal Year Ended June 30, 2018

Net Change in Fund Balance - Total Governmental Funds \$73,695,589

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

Governmental funds report capital asset additions as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of the difference between capital asset additions and depreciation in the current period.

Capital assets used in governmental activities	\$730,945	
Depreciation Expense	<u>(1,070,518)</u>	(339,573)

Governmental funds report district pension and OPEB contributions as expenditures. However in the Statement of Activities, the cost of pension benefits earned net of employee contributions is reported as pension and OPEB expense

District pension contributions	2,813,371	
Pension expense	13,006,292	
District OPEB contributions	80,833	
OPEB expense	<u>1,496,883</u>	17,397,379

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

Income Taxes	\$17,239	
Delinquent Property Taxes	150,351	
Interest	132,006	
Intergovernmental	<u>26,960,074</u>	27,259,670

In the statement of activities, certain costs and proceeds associated with long-term debt obligations issued during the year are accrued and amortized over the life of the debt obligation. In governmental funds these costs and proceeds are recognized as financing sources and uses.

Premium on Bonds Issued		(1,772,141)
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Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.

1,018,687

In the statement of activities interest expense is accrued when incurred; whereas, in governmental funds an interest expenditure is reported when due.

(58,114)

Some expenses 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	(\$1,235,366)	
Amortization of Bond Premium	90,536	
Amortization of Deferred Charge on Refunding	(2,795)	
Bond Accretion	<u>(106,150)</u>	(1,253,775)

Proceeds from debt issues are an other financing source in the funds, but a debt issue increases long-term liabilities in the statement of net position.

(71,700,000)

Change in Net Position of Governmental Activities

\$44,247,722

See accompanying notes to the basic financial statements.

Southwest Local School District
Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2018

	Private Purpose Trust	Agency
Assets:		
Equity in Pooled Cash and Investments	<u>\$9,469</u>	<u>\$122,280</u>
Total Assets	<u>9,469</u>	<u>122,280</u>
Liabilities:		
Accounts Payable	0	1,345
Other Liabilities	<u>0</u>	<u>120,935</u>
Total Liabilities	<u>0</u>	<u>\$122,280</u>
Net Position:		
Held in Trust	<u>9,469</u>	
Total Net Position	<u><u>\$9,469</u></u>	

See accompanying notes to the basic financial statements.

Southwest Local School District
Statement of Changes in Fiduciary Net Position
Fiduciary Fund
For the Fiscal Year Ended June 30, 2018

	Private Purpose Trust
Additions:	
Donations	\$5,900
Other	600
Total Additions	<u>6,500</u>
Deductions:	
Scholarships	<u>2,669</u>
Total Deductions	<u>2,669</u>
Change in Net Position	3,831
Net Position - Beginning of Year	<u>5,638</u>
Net Position - End of Year	<u><u>\$9,469</u></u>

See accompanying notes to the basic financial statements.

Southwest Local School District
Notes to the Basic Financial Statements
For The Fiscal Year Ended June 30, 2018

Note 1 – Description of the District

The Southwest Local School District (the “District”) was formed in 1954 with the consolidation of Harrison, Crosby and Whitewater School Districts. Today, the District operates under current standards prescribed by the Ohio State Board of Education as provided in division (D) of Section 3301.07 and Section 119.01 of the Ohio Revised Code.

The District operates under a locally elected five member Board form of government and provides educational services as authorized by its charter or further mandated by state and/or federal agencies. This Board controls the District's instructional and support facilities staffed by 165 non-certificated personnel and 211 certificated full time teaching and administrative personnel to provide services to students and other community members.

The District enrollment was 3,875. It currently operates six elementary schools, one junior school (grades 7-8), and one comprehensive high school (grades 9-12).

Reporting Entity

The financial reporting entity consists of a primary government. The District is a primary government because it is a special-purpose government that has a separately elected governing body, is legally separate, and is fiscally independent of other state and local governments.

There are no component units combined with the District for financial statement presentation purposes, and it is not included in any other governmental reporting entity. Consequently, the District's financial statements include only the funds of those organizational entities for which its elected governing body is financially accountable. The District's major operations include education, pupil transportation, food service, and maintenance of District facilities.

The District is associated with two jointly governed organizations. These organizations are:

Jointly Governed Organizations:
Hamilton Clermont Cooperative Information Technology Center
Great Oaks Career Campuses

These organizations are presented in Note 13.

Note 2 – Summary of Significant Accounting Policies

The financial statements of the 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 District's accounting policies are described below.

**Southwest Local School District
Notes to the Basic Financial Statements
For The Fiscal Year Ended June 30, 2018**

Measurement Focus

Government-wide Financial Statements

The 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.

The government-wide statements are prepared using the economic resources measurement focus. All assets and liabilities associated with the operation of the District are included on the statement of net position. Fiduciary Funds are not included in entity-wide statements.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the 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 and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues of the District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the District.

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, deferred outflows of resources, current liabilities, and deferred inflows of resources 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.

Fund Accounting

The District uses funds to maintain its financial records during the fiscal year. Fund accounting is designed to demonstrate legal compliance and to aid management by segregating transactions related to certain District functions or activities. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The various funds of the District are grouped into the categories governmental and fiduciary. The focus of government fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column.

Southwest Local School District
Notes to the Basic Financial Statements
For The Fiscal Year Ended June 30, 2018

Governmental Funds

Governmental funds focus 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 deferred outflows of resources, and liabilities and deferred inflows of resources is reported as fund balance. The following are the District's major governmental funds:

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

Building Fund – A fund used to account for the receipts and expenditures related to all special bond funds in the district. All proceeds from the sale of bonds, notes, or certificates of indebtedness, except premium and accrued interest, must be paid into this fund. Expenditures recorded here represent the costs of acquiring capital facilities including real property.

Classroom Facilities Fund- A fund provided to account for monies received and expended in connection with contracts entered into by the District and Ohio Facilities Construction Commission for equipment and the building of classroom facilities.

Fiduciary Funds

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 District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the District's own programs. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The District has a student activity fund which accounts for assets and liabilities generated by student managed activities. The District's only trust fund is a private purpose trust which accounts for scholarship programs for students.

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. Governmental funds use the modified accrual basis of accounting. Fiduciary funds also use the accrual basis of accounting. Differences in the actual and the modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred outflows/inflows of resources, and in the presentation of expenses versus expenditures.

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

Southwest Local School District
Notes to the Basic Financial Statements
For The Fiscal Year Ended June 30, 2018

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 District, available means expected to be received within sixty days of fiscal year end.

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

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at year end: property taxes available for advance, grants and interest.

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, represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. For the District, deferred outflows of resources includes deferred charge on refunding, pension, and other post employment benefits. These amounts are reported on the government-wide statement of net position. The deferred outflows of resources related to a deferred charge on refunding, pension, and OPEB plans are explained in Notes 10 and 11.

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 as an inflow of resources (revenue) until that time. For the District, deferred inflows of resources include property taxes, OPEB, pension, grants and other taxes (which includes tax incremental financing 'TIF'), income taxes, and investment earnings. Property taxes represent amounts for which there is an enforceable legal claim as of June 30, 2018, but which were levied to finance year 2019 operations. These amounts have been recorded as deferred inflows on both the government-wide statement of net position and the governmental fund financial statements. Other taxes (TIFs) have been recorded as deferred inflows on both the government-wide statement of net position and the governmental fund financial statements. Income taxes, grants, and investment earnings have been recorded as deferred inflows on the governmental fund financial statements. Deferred inflows of resources related to pension and OPEB plans are reported on the government-wide statement of net position. For more pension and OPEB related information, see Notes 10 and 11.

Southwest Local School District
Notes to the Basic Financial Statements
For The Fiscal Year Ended June 30, 2018

Expenses/Expenditures

On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported in the operating statement as an expense with a like amount reported as donated commodities revenue. Unused donated commodities are reported as deferred inflows.

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 the governmental funds.

Equity in Pooled Cash and Investments

Cash received by the District is pooled for investment purposes. Interest in the pool is presented as "Equity in Pooled Cash and Investments" on the financial statements.

Investments are reported at fair value which is based on quoted market prices.

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

For 2018, there were no limitations or restrictions on any participant withdrawals due to redemption notice periods, liquidity fees, or redemption gates. However, notice must be given 24 hours in advance of all deposits and withdrawals exceeding \$25 million. STAR Ohio reserves the right to limit the transaction to \$50 million, requiring the excess amount to be transacted the following business day(s), but only to the \$50 million limit. All accounts of the participant will be combined for these purposes.

Following Ohio statutes, the Board has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue during fiscal year 2018 amounted to (\$213,354) in the General Fund and \$190,236 in all other funds.

For presentation on the financial statements, all investments of the cash management pool are considered to be cash equivalents.

Inventory

Inventories are presented at cost on a first-in, first-out basis and are expended/expensed when used. Inventories are accounted for using the purchase method on the fund level statements and using the consumption method on the government-wide statements.

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

Southwest Local School District
Notes to the Basic Financial Statements
For The Fiscal Year Ended June 30, 2018

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

Capital Assets

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The District has a capitalization threshold of \$2,500. The District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset’s life are not.

All reported capital assets are depreciated, except land. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is allocated using the straight-line method over the following useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Land Improvements	10-45 years
Buildings and Improvements	10-45 years
Equipment	5-20 years

Compensated Absences

The District reports compensated absences in accordance with the provisions of GASB Statement No. 16, “Accounting for Compensated Absences.” Vacation benefits are accrued as a liability as the benefits are earned if the employees’ rights to receive compensation are attributable to services already rendered and it is probable that the District will compensate the employees for the benefits through paid time off or some other means. The District records a liability for accumulated unused vacation time, when earned, for all employees with more than one year of service.

Sick leave benefits are accrued as a liability using the vesting method. The entire compensated absence liability is reported on the government-wide financial statements.

For governmental fund financial statements, the expenditures for compensated absences are recognized when paid, or in the case of termination benefits, when due for payment. These amounts due at year end are recorded in the account “compensated absences payable” in the fund from which the employees who have accumulated unpaid leave are paid. Compensated absences are reported in governmental funds only if they have matured.

The District’s policies regarding compensated absences are determined by the state laws and/or negotiated agreements. In summary, the policies are as follows:

<u>Vacation</u>	<u>Certified</u>	<u>Administrators</u>	<u>Non-certificated</u>
How earned	Not Eligible	20 days	11-26 days for each service year depending on length of service
Maximum Accumulation	Not Applicable	20 days	26 days

**Southwest Local School District
Notes to the Basic Financial Statements
For The Fiscal Year Ended June 30, 2018**

Vested	Not Applicable	As Earned	As Earned
Termination Entitlement	Not Applicable	None	None
<u>Sick Leave</u>	<u>Certified</u>	<u>Administrators</u>	<u>Non-certificated</u>
How Earned	1 1/4 days per month of employment (15 days per year)	1 1/4 days per month of employment (15 days per year)	1 1/4 days per month of employment (15 days per year)
Maximum Accumulation	300 days	300 days	300 days
Vested	As Earned	As Earned	As Earned
Termination Entitlement	Per Contract	Per Contract	Per Contract

Pensions/Other Postemployment Benefits (OPEB)

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

Net Position

Net position represents the difference between assets and deferred outflows of resources, and liabilities and deferred inflow 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 District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

The District applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position are available. Of the District's \$34,046,373 in restricted net position, none were restricted by enabling legislation.

Southwest Local School District
Notes to the Basic Financial Statements
For The Fiscal Year Ended June 30, 2018

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.

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as “interfund receivables/payables”. These amounts are eliminated in the governmental activities column on the Statement of Net position.

As a general rule, the effect of interfund (internal) activity has been eliminated from the government-wide statement of activities. The interfund services provided and used are not eliminated in the process of consolidation.

Fund Balance

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

Nonspendable – resources that are not in spendable form (inventory) or have legal or contractual requirements to maintain the balance intact.

Restricted – resources that have external purpose restraints imposed on them by providers, such as creditors, grantors, or other regulators.

Committed – resources that are constrained for specific purposes that are internally imposed by the government at its highest level of decision making authority, the Board of Education. The formal action that is required to establish (and modify or rescind) a fund balance commitment is a Board Resolution.

Assigned – resources that are intended to be used for specific purposes as approved through the District’s formal purchasing procedure by the Treasurer.

Unassigned – residual fund balance within the General Fund that is not restricted, committed, or assigned. In other governmental funds, the unassigned classification is used only to report a deficit balance resulting from incurred expenses for specific purposes exceeding amounts, which had been restricted, committed or assigned for said purposes.

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

Southwest Local School District
Notes to the Basic Financial Statements
For The Fiscal Year Ended June 30, 2018

Estimates

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

Restricted Assets

Restricted Assets are assets that normally would be available for use in operations but may be more of limited use because of an externally enforceable constraint on how it may be used. The District's main restricted asset was Cash and Cash Equivalents with Fiscal Agent.

Cash and Cash Equivalents with Fiscal Agent

The District has cash with fiscal agent in the debt service fund for the District's HB264 QSCB's principal payments made to a sinking fund. The Bank of New York Mellon Trust Co. is the paying agent and maintains the sinking fund.

Note 3 – Equity in Pooled Cash and Investments

The District maintains a cash and investment pool used by all funds. Each fund type's portion of this pool is displayed on the combined balance sheet as "Equity in Pooled Cash and Investments."

State statute requires the classification of monies held by the District into three categories:

Active Monies - Those monies required to be kept in a "cash" or "near cash" status for immediate use by the District. Such monies must by law be maintained either as cash in the District treasury, in depository accounts payable or withdrawable on demand.

Inactive Monies – Those monies not required for use within the current two year period of designated depositories. Ohio law permits inactive monies to be deposited or invested as certificates of deposit maturing not later than the end of the current period of designated depositories, or as savings or deposit accounts, including, but not limited to passbook accounts.

Interim Monies – 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. Ohio law permits interim monies to be invested or deposited in the following securities:

- (1) Bonds, notes, or other obligations of or guaranteed by the United States, or those for which the faith of the United States is pledged for the payment of principal and interest.
- (2) Bonds, notes, debentures, or other obligations or securities issued by any federal governmental agency.
- (3) No-load money market mutual funds consisting exclusively of obligations described in (1) or (2) above and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions.

Southwest Local School District
Notes to the Basic Financial Statements
For The Fiscal Year Ended June 30, 2018

- (4) Interim deposits in the eligible institutions applying for interim monies to be evidenced by time certificates of deposit maturing not more than one year from date of deposit, or by savings or deposit accounts, including, but limited to, passbook accounts.
- (5) Bonds, and other obligations of the State of Ohio.
- (6) The Ohio State Treasurer's investment pool (STAROhio).
- (7) Commercial paper and banker's acceptances, which meet the requirements established by Ohio Revised Code, Sec. 135.142.
- (8) Under limited circumstances, corporate debt interests in either of the two highest rating classifications by at least two nationally recognized rating agencies.

Protection of the District's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the financial institution as security for repayment, or by the financial institutions participation in the Ohio Pooled Collateral System (OPCS), a collateral pool of eligible securities deposited with a qualified trustee and pledged to the Treasurer of State to secure the repayment of all public monies deposited in the financial institution.

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

Deposits

Custodial credit risk for deposits is the risk that in the event of bank failure, the District will not be able to recover deposits or collateral securities that are in the possession of an outside party. As of June 30, 2018, \$1,748,624 of the District's bank balance of \$1,998,624 was exposed to custodial credit risk because it was uninsured and collateralized.

The District has no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits either be insured or be protected by:

Eligible securities pledged to the District and deposited with a qualified trustee by the financial institution as security for repayment whose market value at all times shall be at least 105% of the deposits being secured; or

Southwest Local School District
Notes to the Basic Financial Statements
For The Fiscal Year Ended June 30, 2018

Participation in the Ohio Pooled Collateral System (OPCS), a collateral pool of eligible securities deposited with a qualified trustee and pledged to the Treasurer of State to secure the repayment of all public monies deposited in the financial institution. OPCS requires the total market value of the securities pledged to be 102% of the deposits being secured or a rate set by the Treasurer of State.

Investments

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

Investment Type	Fair Value	Fair Value Hierarchy	Weighted Average Maturity (Years)
Federal Home Loan Mortgage	\$10,820,384	Level 2	1.55
Federal National Mortgage Association	991,685	Level 2	0.55
Federal Home Loan Bank	23,066,335	Level 2	1.53
Negotiable CDs	4,986,380	Level 2	0.55
STAR Ohio	19,115	N/A	0.14
Money Market Funds	12,166,413	N/A	0.00
U.S. Treasury Notes	11,663,288	Level 1	0.73
Commercial Paper	14,313,488	Level 2	0.24
Federal Farm Credit Bank	5,977,850	Level 2	1.45
Treasury Bill	594,216	Level 1	0.47
Total Fair Value	\$84,599,154		
Portfolio Weighted Average Maturity			0.72

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets. Level 2 inputs are significant other observable inputs. Level 3 inputs are significant unobservable inputs. The above table identifies the District's recurring fair value measurements as of June 30, 2018. STAR Ohio is reported at its share price (Net Asset value per share). All other investments of the District are valued using quoted market prices.

Interest Rate Risk - In accordance with the investment policy, the District manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio to three years.

Credit Risk – It is the District's policy to limit its investments that are not obligations of the U.S. Government or obligations explicitly guaranteed by the U.S. Government to investments, which have the highest credit quality rating issued by nationally recognized statistical rating organizations. The District's investments in the Federal Home Loan Mortgage, Federal National Mortgage Association, Federal Farm Credit Bank, and Federal Home Loan Bank were rated AA+ by Standard and Poor's and Aaa by Moody's Investor Service. Commercial Paper is rated A-1 by Standard and Poor's and P-1 by Moody's. Investments in STAROhio were rated AAAM by Standard & Poors. Money Market Funds, Negotiable CDs, Treasury Notes, and Treasury Bills were not rated.

Southwest Local School District
Notes to the Basic Financial Statements
For The Fiscal Year Ended June 30, 2018

Concentration of Credit Risk – The District’s investment policy allows investments in Federal Agencies or Instrumentalities. The District has invested 12.8% in Federal Home Loan Mortgage, 1.2% in Federal National Mortgage Association, 27.3% in Federal Home Loan Bank, 5.9% Negotiable CDs, 14.4% in Money Market Funds, less than 0.1% in STAR Ohio, 13.8% in U.S. Treasury Notes, 16.9% in Commercial Paper, 7% in Federal Farm Credit Bank, and 0.7% in Treasury Bills.

Custodial Credit Risk – It is the risk that in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. All of the District’s securities are either insured and registered in the name of the District or at least registered in the name of the District.

Note 4 – Property and Income Taxes

Property taxes are levied and assessed on a calendar year basis. Second half distributions occur in a new fiscal year. Property taxes include amounts levied against all real and public utility located in the District. Real property taxes are levied after April 1 on the assessed value listed as of the prior January 1, the lien date. Public utility property taxes attached as a lien on December 31 of the prior year, were levied April 1 and are collected with real property taxes. Assessed values for real property taxes are established by State law at 35 percent of appraised market value. All property is required to be revalued every six years. Public utility property taxes are assessed on real property at 35 percent of true value.

Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, 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 District receives property taxes from Hamilton County. The County Auditor periodically advances to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2018, are available to finance fiscal year 2019 operations. The amount available for advance can vary based on the date the tax bills are sent.

Accrued property taxes receivable represents delinquent taxes outstanding and real property and public utility taxes that became measurable as of June 30, 2018. Although total property tax collections for the next fiscal year are measurable, only the amount available as an advance at June 30 is intended to finance current fiscal year operations.

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

	<u>Amount</u>
Agricultural/Residential and Other Real Estate	\$542,870,780
Public Utility Personal	<u>33,375,080</u>
Total	<u><u>\$576,245,860</u></u>

Southwest Local School District
Notes to the Basic Financial Statements
For The Fiscal Year Ended June 30, 2018

Income Tax

The District levies a voted tax of 0.75 percent for general operations on the earned income of residents. The tax was effective on January 1, 2007, and is a continuous levy. Employers of residents are required to withhold income tax on compensation and remit the tax to the State. Taxpayers are required to file an annual return. The State makes quarterly distributions to the District after withholding amounts for administrative fees and estimated refunds. Income tax revenue is credited to the General Fund.

Note 5 – Receivables

Receivables at June 30, 2018, consisted of taxes, accounts, interest, and intergovernmental grants. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current year guarantee of federal funds.

Note 6 – Capital Assets

Capital asset activity for the fiscal year ended June 30, 2018, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Governmental Activities				
<i>Capital Assets, not being depreciated:</i>				
Land	\$2,990,625	\$0	\$0	\$2,990,625
<i>Capital Assets, being depreciated:</i>				
Land Improvements	2,686,299	0	0	2,686,299
Buildings and Improvements	34,701,942	0	0	34,701,942
Equipment	<u>5,755,326</u>	<u>730,945</u>	<u>8,530</u>	<u>6,477,741</u>
Totals at Historical Cost	<u>46,134,192</u>	<u>730,945</u>	<u>8,530</u>	<u>46,856,607</u>
Less Accumulated Depreciation:				
Land Improvements	2,547,433	47,539	0	2,594,972
Buildings and Improvements	19,085,467	733,765	0	19,819,232
Equipment	<u>4,971,287</u>	<u>289,214</u>	<u>8,530</u>	<u>5,251,971</u>
Total Accumulated Depreciation	<u>26,604,187</u>	<u>1,070,518</u>	<u>8,530</u>	<u>27,666,175</u>
Governmental Activities Capital Assets, Net	<u>\$19,530,005</u>	<u>(\$339,573)</u>	<u>\$0</u>	<u>\$19,190,432</u>

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Southwest Local School District
Notes to the Basic Financial Statements
For The Fiscal Year Ended June 30, 2018

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$810,012
Special	54,951
Support Services:	
Pupils	1,530
Instructional Staff	2,099
School Administration	46,031
Fiscal	452
Operations and Maintenance	54,257
Pupil Transportation	57,029
Operation of Non-Instructional Services	26,607
Extracurricular Activities	17,550
Total Depreciation Expense	<u>\$1,070,518</u>

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Southwest Local School District
Notes to the Basic Financial Statements
For The Fiscal Year Ended June 30, 2018

Note 7 – Long-Term Liabilities

	Interest Rate	Issuance Date	Maturity Date	Restated Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
Governmental Activities								
<u>General Obligation Bonds:</u>								
2017 Refunded General Obligation Bonds	5.05%	5/1/99	12/1/18	\$8,005,000	\$0	\$0	\$8,005,000	\$50,000
2017 Refunded General Obligation Bonds - Premium				885,312	0	80,483	804,829	0
Refunding A:								
\$4,540,000 - Current Interest	4.00%	12/1/07	12/1/19	35,000	0	35,000	0	0
\$55,000 - Capital Appreciation	4.00%	12/1/07	12/1/19	55,000	0	0	55,000	0
Accretion of Interest	0.00%	12/1/07	12/1/19	290,290	51,902	0	342,192	0
Refunding B:								
\$4,665,000 - Current Interest	4.00%	12/1/07	12/1/20	40,000	0	40,000	0	0
\$50,000 - Capital Appreciation	4.00%	12/1/07	12/1/20	50,000	0	0	50,000	0
Accretion of Interest	0.00%	12/1/07	12/1/20	284,403	54,248	0	338,651	0
2012 Refunding School Improvement Bonds	0.00%	12/1/11	12/1/18	1,545,000	0	760,000	785,000	785,000
\$475,136 - Premium on A and B Refunding	0.00%	12/1/07	12/1/20	20,106	0	10,053	10,053	0
\$2,815,000 - HB264	6.00%	3/10/11	12/1/25	2,815,000	0	0	2,815,000	0
2018 Series Bonds				0	61,800,000	0	61,800,000	1,600,000
2018 Series Bonds Premium				0	1,772,141	0	1,772,141	0
2018 School Improvement Bond Anticipation Notes				0	9,900,000	0	9,900,000	0
Subtotal Bonds				14,025,111	73,578,291	925,536	86,677,866	2,435,000
Capital Lease				551,061	0	183,687	367,374	183,687
Compensated Absences				4,603,170	1,459,702	360,581	5,702,291	360,581
Subtotal Bonds and Other Amounts				19,179,342	75,037,993	1,469,804	92,747,531	2,979,268
Net Pension Liability								
STRS				46,372,048	0	13,556,906	32,815,142	0
SERS				7,937,378	0	1,550,536	6,386,842	0
Subtotal Net Pension Liability				54,309,426	0	15,107,442	39,201,984	0
Net OPEB Liability								
STRS				7,408,920	0	2,019,259	5,389,661	0
SERS				3,120,748	0	217,129	2,903,619	0
Subtotal Net OPEB Liability				10,529,668	0	2,236,388	8,293,280	0
Total Long-Term Obligations				\$84,018,436	\$75,037,993	\$18,813,634	\$140,242,795	\$2,979,268

General obligation bonds will be paid from the debt service fund. Compensated absences will be paid from the fund from which the person is paid. There is no repayment schedule for the net pension liability and net OPEB liability; however, employer pension and OPEB contributions are made from the fund benefitting from their service.

2018 Series A Bonds were issued for \$60,200,000 with varying interest rates between 2.5%-4.0%. They have a final maturity of 1/15/2055.

2018 Series B Bonds were issued for \$1,600,000 with an interest rate of 3.0%. The maturity date is 1/15/2019.

2018 School Improvement Bond Anticipation Notes

In November 2018, the District issued \$9,700,000 of 2019 bond anticipation notes payable to renew the 2018 School Improvement Bond Anticipation Notes, less \$200,000 of principal retirement. As the new notes extended the maturity date of the bond anticipation notes past 12 months after the date of the financial statements, the bond anticipation notes will be treated as long-term obligation of the District.

Southwest Local School District
Notes to the Basic Financial Statements
For The Fiscal Year Ended June 30, 2018

Principal and interest requirements to retire debt outstanding at year end are as follows:

Fiscal Year Ending June 30	General Obligation Bonds			Capital Appreciation Bonds		
	Principal	Interest	Total	Principal	Interest	Total
2019	\$2,435,000	\$2,927,396	\$5,362,396	\$0	\$0	\$0
2020	415,000	2,890,558	3,305,558	55,000	395,000	450,000
2021	395,000	2,874,033	3,269,033	50,000	430,000	480,000
2022	905,000	2,858,308	3,763,308	0	0	0
2023	930,000	2,822,183	3,752,183	0	0	0
2024-2028	8,305,000	13,098,897	21,403,897	0	0	0
2029-2033	6,930,000	11,201,240	18,131,240	0	0	0
2034-2038	8,490,000	9,640,661	18,130,661	0	0	0
2039-2043	10,255,000	7,833,705	18,088,705	0	0	0
2044-2048	12,400,000	5,648,672	18,048,672	0	0	0
2049-2053	15,050,000	2,931,000	17,981,000	0	0	0
2054-2055	6,895,000	278,500	7,173,500	0	0	0
Total	<u>\$73,405,000</u>	<u>\$65,005,153</u>	<u>\$138,410,153</u>	<u>\$105,000</u>	<u>\$825,000</u>	<u>\$930,000</u>

Note 8 – Capitalized Leases – Lessee Disclosure

The District entered into a capitalized lease agreement for the acquisition of computers. Capital assets acquired by lease have been capitalized as equipment in the amount of \$551,061, which is equal to the present value of the future minimum lease payments on the government-wide financial statements.

The following is a schedule of the future minimum lease payments required under the capital leases and the present value of the minimum lease payments at year-end.

Fiscal Year Ending June 30	Lease
2019	\$193,412
2020	193,412
Total Minimum Lease Payments	\$386,824
Amount Representing Interest	(19,450)
Present Value of Minimum Lease Payments	<u>\$367,374</u>

Note 9 – Operating Lease – Lessor Disclosure

The District collectively (the “lessor”) entered into an agreement to lease two modular from Williams Scotsman Inc. The lease was effective April 12, 2017 through April 12, 2020. Monthly payments were established at \$2,300 per month and \$4,500 per month, respectively.

**Southwest Local School District
Notes to the Basic Financial Statements
For The Fiscal Year Ended June 30, 2018**

Note 10 - Defined Benefit Pension Plans

Net Pension Liability

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

The net pension liability represents the employer'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 obligation for this liability to annually required payments. The employer cannot control benefit terms or the manner in which pensions are financed; however, the employer 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 accrued wages and benefits on both the accrual and modified accrual bases of accounting.

Plan Description - School Employees Retirement System (SERS)

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

Age and service requirements for retirement are as follows:

**Southwest Local School District
Notes to the Basic Financial Statements
For The Fiscal Year Ended June 30, 2018**

	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 65 with 5 years of service credit	Age 67 with 10 years of service credit; or Age 57 with 30 years of service credit
Actuarially Reduced Benefits	Age 60 with 5 years of service credit Age 55 with 25 years of service credit	Age 62 with 10 years of service credit; or Age 60 with 25 years of service credit

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

Annual retirement benefits are calculated based on final average salary multiplied by a percentage that varies based on year of service; 2.20% for the first thirty years of service and 2.50% for years of service credit over 30 or \$86.00 multiplied by the years of service credit. Final average salary is the average of the highest three years of salary.

Post-Retirement Increases – Before January 1, 2018; on each anniversary of the initial date of retirement, the allowances of all retirees and survivors are increased by 3% of the base benefit. On or after January 1, 2018; on each anniversary of the initial retirement, the allowance of all retirees and survivors are increased by the annual rate of increase in the CPI-W measured as of the June preceding the beginning of the applicable calendar year. The annual rate of increase shall not be less than 0% nor greater than 2.5%. COLA's shall be suspended for calendar years 2018, 2019, and 2020.

Funding Policy – Plan members are required to contribute 10% of their annual covered salary and the employer is required to contribute 14% 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% for plan members and 14% for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System's funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2018, the allocation to pension, death benefits, and Medicare B was 13.5%. The remaining 0.5% was allocated to the Health Care Fund.

The contractually required contribution to SERS was \$532,195 for fiscal year 2018. Of this amount \$153,872 is reported as accrued wages and benefits.

Plan Description - State Teachers Retirement System (STRS)

Plan Description – 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.

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.

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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 is 2.2% of final average salary for the five highest years of earnings multiplied by all years of service. Effective July 1, 2017, the cost-of-living adjustment was reduced to zero. Members are eligible to retire at age 60 with five years of qualifying service credit, or at age 55 with 26 years of service, or 31 years of service regardless of age. Eligibility changes will be phased in until August 1, 2026, when retirement eligibility for unreduced benefits will be five years of service credit and age 65, or 35 years of service credit and at least age 60.

The DC Plan allows members to place all their member contributions and 9.5% of the 14% employer contributions into an investment account. Investment allocation decisions are determined by the member. The remaining 4.5% of the 14% 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, 12% of the 14% member rate goes to the DC Plan and the remaining 2% is applied to the DB Plan. Member contributions to the DC Plan are allocated among investment choices by the member, and contributions to the DB Plan from the employer and the member are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60 with five years of service. The defined contribution portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity after termination of employment at age 50 or later.

New members who choose the DC Plan or Combined Plan will have another opportunity to reselect a permanent plan during their fifth year of membership. Members may remain in the same plan or transfer to another STRS Ohio 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 Ohio bearing the risk of investment gain or loss on the account. STRS Ohio therefore has included all three plan options in the GASB 68 schedules of employer allocations and pension amounts by employer.

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 10 years of qualifying service credit to apply for disability benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member of the DC Plan dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Funding Policy – Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. For the fiscal year ended June 30, 2018, plan members were required to contribute 14% of their annual covered salary. The employer was required to contribute 14%; the entire 14% was the portion used to fund pension obligations. The fiscal year 2018 contribution rates were equal to the statutory maximum rates.

The contractually required contribution to STRS was \$2,281,176 for fiscal year 2018. Of this amount \$410,460 is reported as accrued wages and benefits.

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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, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The proportion of the net pension liability was based on the 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	\$6,386,842	\$32,815,142	\$39,201,984
Proportion of the Net Pension Liability:			
Current Measurement Date	0.10689670%	0.13813869%	
Prior Measurement Date	<u>0.10844780%</u>	<u>0.13853562%</u>	
Change in Proportionate Share	-0.00155110%	-0.00039693%	
Pension Expense	(\$277,994)	(\$12,728,298)	(\$13,006,292)

At June 30, 2018, 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>
Deferred Outflows of Resources			
Differences between expected and actual experience	\$274,868	\$1,267,167	\$1,542,035
Changes of assumptions	330,268	7,177,032	7,507,300
Changes in employer proportionate share of net pension liability and differences in contributions	48,634	439,124	487,758
Contributions subsequent to the measurement date	<u>532,195</u>	<u>2,281,176</u>	<u>2,813,371</u>
Total Deferred Outflows of Resources	<u>\$1,185,965</u>	<u>\$11,164,499</u>	<u>\$12,350,464</u>
Differences between expected and actual experience	\$0	\$264,477	\$264,477
Net difference between projected and actual earnings on pension plan investments	30,317	1,082,938	1,113,255
Changes in employer proportionate share of net pension liability and differences in contributions	<u>108,958</u>	<u>345,377</u>	<u>454,335</u>
Total Deferred Inflows of Resources	<u>\$139,275</u>	<u>\$1,692,792</u>	<u>\$1,832,067</u>

\$2,813,371 reported as deferred outflows of resources related to pension resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

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Fiscal Year Ending June 30:	SERS	STRS	Total
2019	\$215,745	\$1,473,894	\$1,689,639
2020	370,804	3,093,437	3,464,241
2021	76,835	2,049,938	2,126,773
2022	(148,890)	573,263	424,373
Total	<u>\$514,494</u>	<u>\$7,190,532</u>	<u>\$7,705,026</u>

Actuarial Assumptions - SERS

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

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

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

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of June 30, 2017, are presented below:

Wage Inflation	3.00%
Future Salary Increases, including inflation	3.50% - 18.20%
COLA or Ad Hoc COLA	2.50%
Investment Rate of Return	7.50% net of investments expense, including inflation
Actuarial Cost Method	Entry Age Normal (Level Percent of Payroll)
Actuarial Assumptions Experience Study Date	5 year period ended June 30, 2015

Prior to 2017, an assumption of 3.0% was used for COLA or Ad Hoc COLA.

For 2017, the mortality rates were based on the RP-2014 Blue Collar Mortality Table with fully generational projection and a five year age set-back for both males and females. Mortality among service retired members, and beneficiaries were based upon the RP-2014 Blue Collar Mortality Table with fully generational projection with Scale BB, 120% of male rates, and 110% of female rates.

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

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

Discount Rate

The total pension liability was calculated using the discount rate of 7.50%. 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%. 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 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%, 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%, or one percentage point higher 8.50% than the current rate.

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	1% Decrease 6.50%	Current Discount Rate 7.50%	1% Increase 8.50%
Proportionate share of the net pension liability	\$8,863,276	\$6,386,842	\$4,312,322

Changes in Benefit Terms

The COLA was changed from a fixed 3.00% to a COLA that is indexed to CPI-W not greater than 2.5% with a floor of 0% beginning January 1, 2018. In addition, with the authority granted the Board under HB 49, the Board has enacted a three-year COLA suspension for benefit recipients in calendar years 2018, 2019 and 2020.

Actuarial Assumptions - STRS

The total pension liability in the July 1, 2017, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

	July 1, 2017	July 1, 2016
Inflation	2.50%	2.75%
Projected salary increases	12.50% at age 20 to 2.50% at age 65	12.25% at age 20 to 2.75% at age 70
Investment Rate of Return	7.45%, net of investment expenses, including inflation	7.75%, net of investment expenses, including inflation
Payroll Increases	3.00%	3.50%
Cost-of-Living Adjustments (COLA)	0%, effective July 1, 2017	2% simple applied as follows: for members retiring before August 1, 2013, 2% per year; for members retiring August 1 2013, or later, 2% COLA commences on fifth anniversary of retirement date.

For the July 1, 2017, actuarial valuation, post-retirement mortality rates for healthy retirees are based on the RP-2014 Annuitant Mortality Table with 50% of rates through age 69, 70% of rates between ages 70 and 79, 90% of rates between ages 80 and 84, and 100% of rates thereafter, projected forward generationally using mortality improvement scale MP-2016. Post-retirement disabled mortality rates are based on the RP-2014 Disabled Mortality Table with 90% of rates for males and 100% of rates for females, projected forward generationally using mortality improvement scale MP-2016. Pre-retirement mortality rates are based on RP-2014 Employee Mortality Table, projected forward generationally using mortality improvement scale MP-2016.

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

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Actuarial assumptions used in the July 1 2017, valuation are based on the results of an actuarial experience study for the period July 1, 2011 through June 30, 2016. Actuarial assumptions used in the June 30, 2016, valuation are based on the results of an actuarial experience study, effective July 1, 2012.

STRS Ohio's investment consultant develops an estimate range for the investment return assumption based on the target allocation adopted by the Retirement Board. The target allocation and long-term expected rate of return for each major asset class are summarized as follows:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return*
Domestic Equity	28.00%	7.35%
International Equity	23.00%	7.55%
Alternatives	17.00%	7.09%
Fixed Income	21.00%	3.00%
Real Estate	10.00%	6.00%
Liquidity Reserves	1.00%	2.25%
Total	100.00%	

*10-Year annualized geometric nominal returns, which include the real rate of return and inflation of 2.25% and does not include investment expenses. Over a 30-year period, STRS investment consultant indicates that the above target allocations should generate a return above the actuarial rate of return, without net value added by management.

Discount Rate

The discount rate used to measure the total pension liability was 7.45% as of June 30, 2017. The projection of cash flows used to determine the discount rate assumes that member and employer contributions will be made at the statutory contribution rates in accordance with the rates described above. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Based on those assumptions, STRS fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 2017. Therefore, the long-term expected rate of return on pension plan investments of 7.45% was applied to all periods of projected benefit payments to determine the total pension liability as of June 30, 2017.

Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following table represents the net pension liability as of June 30, 2017, calculated using the current period discount rate assumption of 7.45%, as well as what the net pension liability would be if it were calculated using a discount rate that is one percentage point lower 6.45% or one percentage point higher 8.45% than the current assumption:

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	1% Decrease 6.45%	Current Discount Rate 7.45%	1% Increase 8.45%
Proportionate share of the net pension liability	\$47,039,389	\$32,815,142	\$20,833,346

Changes in Assumptions

The Retirement Board approved several changes to the actuarial assumptions in 2017. The long term expected rate of return was reduced from 7.75% to 7.45%, the inflation assumption was lowered from 2.75% to 2.50%, the payroll growth assumption was lowered to 3.00%, and total salary increases rate was lowered by decreasing the merit component of the individual salary increases, in addition to a decrease of 0.25% due to lower inflation. The healthy and disabled mortality assumptions were updated to the RP-2014 mortality tables with generational improvement scale MP-2016. Rates of retirement, termination and disability were modified to better reflect anticipated future experience.

Changes in Benefit Terms

Effective July 1, 2017, the COLA was reduced to zero.

Note 11 – Defined Benefit Other Postemployment Benefits (OPEB) Plans

Net Other Postemployment Benefits (OPEB) Liability

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

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

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

GASB 75 assumes the liability is solely the obligation of the employer, because they benefit from employee services. OPEB contributions come from these employers and health care plan enrollees which pay a portion of the health care costs in the form of a monthly premium. The Ohio Revised Code permits, but does not require the retirement systems to provide healthcare to eligible benefit recipients. Any change to benefits or funding could significantly affect the net OPEB liability. Resulting adjustments

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to the net OPEB liability would be effective when the changes are legally enforceable. The retirement systems may allocate a portion of the employer contributions to provide for these OPEB benefits.

The proportionate share of each plan's unfunded benefits is presented as a long-term net OPEB liability on the accrual basis of accounting. Any liability for the contractually-required OPEB contribution outstanding at year-end is included in accrued liabilities on the accrual basis of accounting.

Plan Description - School Employees Retirement System (SERS)

Health Care Plan Description - The District contributes to the SERS Health Care Fund, administered by SERS for non-certificated retirees and their beneficiaries. For GASB 75 purposes, this plan is considered a cost-sharing other postemployment benefit (OPEB) plan. SERS' Health Care Plan provides healthcare benefits to eligible individuals receiving retirement, disability, and survivor benefits, and to their eligible dependents. Members who retire after June 1, 1986, need 10 years of service credit, exclusive of most types of purchased credit, to qualify to participate in SERS' health care coverage. In addition to age and service retirees, disability benefit recipients and beneficiaries who are receiving monthly benefits due to the death of a member or retiree, are eligible for SERS' health care coverage. Most retirees and dependents choosing SERS' health care coverage are over the age of 65 and therefore enrolled in a fully insured Medicare Advantage plan; however, SERS maintains a traditional, self-insured preferred provider organization for its non-Medicare retiree population. For both groups, SERS offers a self-insured prescription drug program. Health care is a benefit that is permitted, not mandated, by statute. The financial report of the Plan is included in the SERS Comprehensive Annual Financial Report which can be obtained on SERS' website at www.ohsers.org under Employers/Audit Resources.

Access to health care for retirees and beneficiaries is permitted in accordance with 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. Active employee members do not contribute to the Health Care Plan. The SERS Retirement Board established the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending on the plan selected, qualified years of service, Medicare eligibility, and retirement status.

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required pensions and benefits, the Retirement Board may allocate the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund in accordance with the funding policy. For fiscal year 2018, 0.5% of covered payroll was made to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated if less than a full year of service credit was earned. For fiscal year 2018, this amount was \$23,700. Statutes provide that no employer shall pay a health care surcharge greater than 2.0% of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5% of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2018, the surcharge obligation was \$61,122.

The surcharge, added to the allocated portion of the 14% employer contribution rate is the total amount assigned to the Health Care Fund. The District's contractually required contribution to SERS was \$80,833 for fiscal year 2018. Of this amount \$61,122 is reported as accrued wages and benefits.

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Plan Description - State Teachers Retirement System (STRS)

Plan Description – The State Teachers Retirement System of Ohio (STRS) administers a cost-sharing Health Plan administered for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS. Ohio law authorizes STRS to offer this plan. Benefits include hospitalization, physicians’ fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums. Medicare Part B premium reimbursements will be discontinued effective January 1, 2020. The Plan is included in the report of STRS which can be obtained by visiting www.strsoh.org or by calling (888) 227-7877.

Funding Policy – Ohio Revised Code Chapter 3307 authorizes STRS to offer the Plan and gives the Retirement Board discretionary authority over how much, if any, of the health care costs will be absorbed by STRS. Active employee members do not contribute to the Health Care Plan. Nearly all health care plan enrollees, for the most recent year, pay a portion of the health care costs in the form of a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2018, STRS did not allocate any employer contributions to post-employment health care.

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

The net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The District's proportion of the net OPEB liability was based on the employer's share of contributions to the respective retirement systems relative to the contributions of all participating entities. Following is information related to the proportionate share:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportionate Share of the Net OPEB Liability	\$2,903,619	\$5,389,661	\$8,293,280
Proportion of the Net OPEB Liability:			
Current Measurement Date	0.10819310%	0.13813869%	
Prior Measurement Date	0.10948570%	0.13853562%	
Change in Proportionate Share	<u>-0.00129260%</u>	<u>-0.00039693%</u>	
OPEB Expense	\$150,784	(\$1,647,667)	(\$1,496,883)

At June 30, 2018, reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

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	SERS	STRS	Total
Deferred Outflows of Resources			
Differences between expected and actual experience	\$0	\$311,125	\$311,125
Contributions subsequent to the measurement date	80,833	0	80,833
Total Deferred Outflows of Resources	\$80,833	\$311,125	\$391,958
Deferred Inflows of Resources			
Changes of assumptions	\$275,539	\$434,154	\$709,693
Net difference between projected and actual earnings on pension plan investments	7,668	230,367	238,035
Changes in employer proportionate share of net OPEB liability and differences in contributions	27,045	18,195	45,240
Total Deferred Inflows of Resources	\$310,252	\$682,716	\$992,968

\$80,833 reported as deferred outflows of resources related to OPEB resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Fiscal Year			
Ending June 30:	SERS	STRS	Total
2019	(\$111,549)	(\$81,129)	(\$192,678)
2020	(111,549)	(81,129)	(192,678)
2021	(85,237)	(81,129)	(166,366)
2022	(1,917)	(81,129)	(83,046)
2023	0	(23,538)	(23,538)
Thereafter	0	(23,537)	(23,537)
Total	(\$310,252)	(\$371,591)	(\$681,843)

Actuarial Assumptions - SERS

The total OPEB liability is determined by SERS' actuaries in accordance with GASB Statement No. 74, as part of their annual actuarial valuation for each retirement plan. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts (e.g., salaries, credited service) and assumptions about the probability of occurrence of events far into the future (e.g., mortality, disabilities, retirements, employment terminations). Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future.

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.

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

Key methods and assumptions used in calculating the total OPEB liability in the latest actuarial valuation date of June 30, 2017, are presented below:

Wage Inflation	3.00%
Future Salary Increases, including inflation	3.50% to 18.20%
Investment Rate of Return	7.50% net of investments expense, including inflation
Municipal Bond Index Rate:	
Measurement Date	3.56%
Prior Measurement Date	2.92%
Single Equivalent Interest Rate, net of plan investment expense, including price inflation:	
Measurement Date	3.63%
Prior Measurement Date	2.98%
Medical Trend Assumption	
Medicare	5.50% to 5.00%
Pre-Medicare	7.50% to 5.00%

Mortality rates were based on the RP-2014 Blue Collar Mortality Table with fully generational projection and Scale BB, 120 percent of male rates and 110 percent of female rates. RP-2000 Disabled Mortality Table with 90 percent for male rates and 100 percent for female rates set back five years.

The most recent experience study was completed for the five year period ended June 30, 2015.

The long-term expected rate of return on plan assets is reviewed as part of the actuarial five-year experience study. The most recent study covers fiscal years 2010 through 2015, and was adopted by the Board on April 21, 2016. Several factors are considered in evaluating the long-term rate of return assumption including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return, 7.50 percent, by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

The target asset allocation and best estimates of arithmetic real rates of return for each major asset class, as used in the June 30, 2015 five-year experience study, are summarized as follows:

Southwest Local School District
Notes to the Basic Financial Statements
For The Fiscal Year Ended June 30, 2018

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

Discount Rate

The discount rate used to measure the total OPEB liability at June 30, 2017 was 3.63 percent. The discount rate used to measure total OPEB liability prior to June 30, 2017 was 2.98 percent. The projection of cash flows used to determine the discount rate assumed that contributions will be made from members and the System at the state statute contribution rate of 2.00 percent of projected covered employee payroll each year, which includes a 1.50 percent payroll surcharge and 0.50 percent of contributions from the basic benefits plan. Based on these assumptions, the OPEB plan's fiduciary net position was projected to become insufficient to make future benefit payments during the fiscal year ending June 30, 2025. Therefore, the long-term expected rate of return on OPEB plan assets was used to present value the projected benefit payments through the fiscal year ending June 30, 2024 and the Fidelity General Obligation 20-year Municipal Bond Index rate of 3.56 percent, as of June 30, 2017 (i.e. municipal bond rate), was used to present value the projected benefit payments for the remaining years in the projection. The total present value of projected benefit payments from all years was then used to determine the single rate of return that was used as the discount rate. The projection of future benefit payments for all current plan members was until the benefit payments ran out.

Sensitivity of the Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate and Changes in the Health Care Cost Trend Rates

The net OPEB liability is sensitive to changes in the discount rate and the health care cost trend rate. The following table presents the net OPEB liability of SERS, what SERS' net OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (2.63%) and higher (4.63%) than the current discount rate (3.63%). Also shown is what SERS' net OPEB liability would be based on health care cost trend rates that are 1 percentage point lower (6.5% decreasing to 4.0%) and higher (8.5% decreasing to 6.0%) than the current rate.

	1% Decrease 2.63%	Current Discount Rate 3.63%	1% Increase 4.63%
Proportionate share of the net OPEB liability	\$3,506,489	\$2,903,619	\$2,425,991

**Southwest Local School District
Notes to the Basic Financial Statements
For The Fiscal Year Ended June 30, 2018**

	1% Decrease 6.50% decreasing to 4.00%	Current Trend Rate 7.50% decreasing to 5.00%	1% Increase 8.50% decreasing to 6.00%
Proportionate share of the net OPEB liability	\$2,356,069	\$2,903,619	\$3,628,310

Changes in Assumptions – SERS

Amounts reported for fiscal year 2018 incorporate changes in key methods and assumptions used in calculating the total OPEB liability as presented below:

Municipal Bond Index Rate:

Fiscal year 2018	3.56 percent
Fiscal year 2017	2.92 percent

Single Equivalent Interest Rate, net of plan investment expense, including price inflation:

Fiscal year 2018	3.63 percent
Fiscal year 2017	2.98 percent

Actuarial Assumptions - STRS

Key methods and assumptions used in the latest actuarial valuation, reflecting experience study results used in the June 30, 2017, actuarial valuation are presented below:

Inflation	2.50%
Projected salary increases	12.50% at age 20 to 2.50% at age 65
Investment Rate of Return	7.45%, net of investment expenses, including inflation
Payroll Increases	3.00%
Cost-of-Living Adjustments (COLA)	0.00%, effective July 1, 2017
Blended Discount Rate of Return	4.13%
Health Care Cost Trends	6.00% to 11.00% initial, 4.5% ultimate

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

For healthy retirees the mortality rates are based on the RP-2014 Annuitant Mortality Table with 50 percent of rates through age 69, 70 percent of rates between ages 70 and 79, 90 percent of rates between ages 80 and 84, and 100 percent of rates thereafter, projected forward generationally using mortality improvement scale MP-2016. For disabled retirees, mortality rates are based on the RP-2014 Disabled Mortality Table with 90 percent of rates for males and 100 percent of rates for females, projected forward generationally using mortality improvement scale MP-2016.

Actuarial assumptions used in the June 30, 2017, valuation are based on the results of an actuarial experience study for the period July 1, 2011 through June 30, 2016.

Southwest Local School District
Notes to the Basic Financial Statements
For The Fiscal Year Ended June 30, 2018

Since the prior measurement date, the discount rate was increased from 3.26% to 4.13% based on the methodology defined under GASB Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans (OPEB) and the long term expected rate of return was reduced from 7.75% to 7.45%. Valuation year per capita health care costs were updated, and the salary scale was modified. The percentage of future retirees electing each option was updated based on current data and the percentage of future disabled retirees and terminated vested participants electing health coverage were decreased. The assumed mortality, disability, retirement, withdrawal and future health care cost trend rates were modified along with the portion of rebated prescription drug costs.

Also since the prior measurement date, the subsidy multiplier for non-Medicare benefit recipients was reduced from 2.1% to 1.9% per year of service. Medicare Part B premium reimbursements were discontinued for certain survivors and beneficiaries and all remaining Medicare Part B premium reimbursements will be discontinued beginning January 2019. Subsequent to the current measurement date, the date for discontinuing remaining Medicare Part B premium reimbursements was extended to January 2020.

STRS' investment consultant develops an estimate range for the investment return assumption based on the target allocation adopted by the Retirement Board. The target allocation and long-term expected rate of return for each major asset class are summarized as follows:

Asset Class	Target Allocation	Long-Term Expected Rate of Return*
Domestic Equity	28.00%	7.35%
International Equity	23.00%	7.55%
Alternatives	17.00%	7.09%
Fixed Income	21.00%	3.00%
Real Estate	10.00%	6.00%
Liquidity Reserves	1.00%	2.25%
Total	100.00%	

*10 year annualized geometric nominal returns, which includes the real rate of return and inflation of 2.25% and does not include investment expenses. Over a 30-year period, STRS' investment consultant indicates that the above target allocations should generate a return above the actual rate of return, without net value added by management.

Discount Rate

The discount rate used to measure the total OPEB liability was 4.13 percent as of June 30, 2017. The projection of cash flows used to determine the discount rate assumes STRS Ohio continues to allocate no employer contributions to the health care fund. Based on these assumptions, the OPEB plan's fiduciary net position was not projected to be sufficient to make all projected future benefit payments of current plan members. The OPEB plan's fiduciary net position was projected to become insufficient to make future benefit payments during the fiscal year ending June 30, 2037. Therefore, the long-term expected rate of return on OPEB plan assets was used to determine the present value of the projected

Southwest Local School District
Notes to the Basic Financial Statements
For The Fiscal Year Ended June 30, 2018

benefit payments through the fiscal year ending June 30, 2036 and the Bond Buyer 20-year municipal bond rate of 3.58 percent as of June 30, 2017 (i.e. municipal bond rate), was used to determine the present value of the projected benefit payments for the remaining years in the projection. The total present value of projected benefit payments from all years was then used to determine the single rate of return that was used as the discount rate. The blended discount rate of 4.13 percent, which represents the long-term expected rate of return of 7.45 percent for the funded benefit payments and the Bond Buyer 20-year municipal bond rate of 3.58 percent for the unfunded benefit payments, was used to measure the total OPEB liability as of June 30, 2017. A blended discount rate of 3.26 percent which represents the long term expected rate of return of 7.75 percent for the funded benefit payments and the Bond Buyer 20-year municipal bond rate of 2.85 percent for the unfunded benefit payments was used to measure the total OPEB liability at June 30, 2016.

Sensitivity of the Proportionate Share of the Net OPEB Liability to Changes in the Discount and Health Care Cost Trend Rate

The following table represents the net OPEB liability as of June 30, 2017, calculated using the current period discount rate assumption of 4.13%, as well as what the net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (3.13%) or one percentage point higher (5.13%) than the current assumption. Also shown is the net OPEB liability as if it were calculated using health care cost trend rates that are one percentage point lower or one percentage point higher than the current health care cost trend rates.

	1% Decrease 3.13%	Current Discount Rate 4.13%	1% Increase 5.13%
Proportionate share of the net OPEB liability	\$7,235,535	\$5,389,661	\$3,930,819
	1% Decrease	Current Trend Rate	1% Increase
Proportionate share of the net OPEB liability	\$3,744,506	\$5,389,661	\$7,554,880

Changes in Assumptions – STRS

For fiscal year 2018, the discount rate was increased from 3.26% to 4.13% based on the methodology defined under GASB Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans (OPEB) and the long term expected rate of return was reduced from 7.75% to 7.45%. Valuation year per capita health care costs were updated, and the salary scale was modified. The percentage of future retirees electing each option was updated based on current data and the percentage of future disabled retirees and terminated vested participants electing health coverage were decreased. The assumed mortality, disability, retirement, withdrawal and future health care cost trend rates were modified along with the portion of rebated prescription drug costs.

Also for fiscal year 2018, the subsidy multiplier for non-Medicare benefit recipients was reduced from 2.1% to 1.9% per year of service. Medicare Part B premium reimbursements were discontinued for certain survivors and beneficiaries and all remaining Medicare Part B premium reimbursements will be discontinued beginning January 2019.

Southwest Local School District
Notes to the Basic Financial Statements
For The Fiscal Year Ended June 30, 2018

Note 12 – Contingent Liabilities

Foundation Funding

The funding formula the Ohio Department of Education (ODE) is legislatively required to follow will continue to adjust as enrollment information is updated by the school district, which can extend past the fiscal year end. As of the date of this report, ODE has not finalized the impact of enrollment adjustments to the June 30, 2018 Foundation funding for the District; therefore, the financial statement impact is not determinable at this time. ODE and management believe this will result in either a receivable to or liability of the District.

Grants

The District receives significant financial assistance from numerous federal, state and local agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and 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 effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the District as of June 30, 2018.

Litigation

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

Note 13 – Jointly Governed Organizations

Hamilton Clermont Cooperative Information Technology Center (HCC) - The Hamilton Clermont Cooperative Information Technology Center 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 twenty-four participating school districts' elected boards, which possesses its own budgeting and taxing authority. To obtain financial information write to the Hamilton Clermont Cooperative Information Technology Center, the Executive Director, 7615 Harrison Avenue, Cincinnati, Ohio 45231.

Great Oaks Career Campuses - Great Oaks Career Campuses is a distinct political subdivision of the State of Ohio operated under the direction of a Board consisting of thirty-five members representing thirty-six affiliated school districts, which possesses its own budgeting and taxing authority. To obtain financial information, write to the Great Oaks Career Campuses, the Chief Financial Officer, at 3254 East Kemper Road, Cincinnati, Ohio 45241.

Note 14 – Risk Management

The District is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the fiscal year, the District contracted with Indiana Insurance for fleet and liability insurance and Inland Marine coverage for property insurance.

Southwest Local School District
Notes to the Basic Financial Statements
For The Fiscal Year Ended June 30, 2018

Coverages provided by Indiana Insurance are as follows:

Building and Contents-replacement cost (\$10,000 deductible)	\$88,476,997
Inland Marine Coverage (\$1,000 deductible)	
Musical Instruments (\$250 deductible)	50,650
Lawn Equipment (\$500 deductible)	7,000
Automobile Liability (\$1,000 deductible)	1,000,000
Uninsured Motorists (\$1,000 deductible)	1,000,000
General Liability	
Per occurrence	1,000,000
Aggregate	2,000,000
Umbrella Liability	10,000,000

Settled claims have not exceeded this commercial coverage in any of the past three years.

Note 15 – Set-Asides

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

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

	<u>Capital Acquisition</u>
Set-aside Reserve Balance as of June 30, 2017	\$0
Current Year Set-aside Requirement	655,218
Qualified Disbursements	<u>(3,233,307)</u>
Set-aside Reserve Balance as of June 30, 2018	<u>(\$2,578,089)</u>
Restricted Cash as of June 30, 2018	<u>\$0</u>

Expenditures for capital activity during the year totaled \$3,233,307 above, which exceeded the required set-aside and the reserve balance. Although the District had qualifying disbursements during the year that reduced the Capital Acquisition set-aside amounts to below zero, these extra amounts may not be used to reduce the set-aside requirements of future years. Negative amounts are therefore not presented as being carried forward to the next fiscal year.

Note 16 - Interfund Transactions

Interfund transactions at fiscal year end, consisted of the following individual fund transfers in and out:

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Southwest Local School District
Notes to the Basic Financial Statements
For The Fiscal Year Ended June 30, 2018

	Transfers	
	In	Out
General Fund	\$0	\$244,344
Other Governmental Funds	244,344	0
Total All Funds	<u>\$244,344</u>	<u>\$244,344</u>

Transfers are used to move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them and unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations; to segregate money for anticipated capital projects; to provide additional resources for current operations or debt service; and to return money to the fund from which it was originally provided once a project is completed.

Note 17 – Accountability

The following funds had a deficit in fund balance:

Fund	Deficit
Other Governmental Funds:	
Title VI-B	\$130,597
Title I	49,932
Improving Teacher Quality	13,231

The deficit in fund balance was due to accruals in GAAP. The general fund is liable for any deficit in these funds and will provide operating transfers when cash is required not when accruals occur.

Note 18 – Construction and Other Commitments

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

<u>Description</u>	<u>Remaining Commitment</u>
General	\$599,926
Building	222,194
Classroom Facilities	6,324,120
Other Governmental	33,868

Note 19 – Fund Balances

Fund balance is classified as nonspendable, restricted, committed, assigned and/or unassigned based primarily on the extent to which the District is bound to observe constraints imposed upon the use of the resources in the government funds. The constraints placed on fund balance for the major governmental funds and all other governmental funds are presented below:

Southwest Local School District
Notes to the Basic Financial Statements
For The Fiscal Year Ended June 30, 2018

Fund Balances	General	Building	Classroom Facilities	Other Governmental Funds	Total
Restricted for:					
Other Grants	\$0	\$0	\$0	\$13,653	\$13,653
Student Activities	0	0	0	78,365	78,365
Auxiliary Services	0	0	0	29,686	29,686
Classroom Facilities	0	0	57,723,335	0	57,723,335
Food Service	0	0	0	459,243	459,243
Debt Service	0	0	0	7,728,137	7,728,137
Building	0	14,162,738	0	0	14,162,738
Permanent Improvement	0	0	0	266,372	266,372
Total Restricted	0	14,162,738	57,723,335	8,575,456	80,461,529
Committed to:					
Permanent Improvements	0	0	0	42,060	42,060
Total Committed	0	0	0	42,060	42,060
Assigned to:					
Encumbrances	560,145	0	0	0	560,145
Public School	94,436	0	0	0	94,436
Budgetary Resources	881,343	0	0	0	881,343
Total Assigned	1,535,924	0	0	0	1,535,924
Unassigned (Deficit)	8,904,650	0	0	(193,760)	8,710,890
Total Fund Balance	\$10,440,574	\$14,162,738	57,723,335	\$8,423,756	\$90,750,403

Note 20 – Tax Abatements Entered Into By Other Governments

Other governments entered into property tax abatement agreements with property owners under the Ohio Community Reinvestment Area (“CRA”) and Enterprise Zone (EZ) programs with the taxing districts of the District. The CRA and EZ programs are directive incentive tax exemption programs benefiting property owners who renovate or construct new buildings. Under these programs, the other governments designated areas to encourage revitalization of the existing housing stock and the development of new structures. Within the taxing districts of the District, the Hamilton County has entered into such an agreement. Under this agreement the District’s property taxes were reduced by approximately \$351,482. The District is receiving \$23,765 from this other government in association with the forgone property tax revenue.

Note 21 – Implementation of New Accounting Principles and Restatement of Net Position

For the fiscal year ended June 30, 2018, the District has implemented GASB Statement No. 81, Irrevocable Split-Interest Agreements, GASB Statement No. 82, Pensions Issues – An Amendment of GASB Statements No. 67, No. 68, and No. 73, and GASB No. 86, Certain Debt Extinguishment Issues, and GASB Statement No. 85, Omnibus 2017, GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other than Pensions, and related guidance from (GASB) Implementation Guide No. 2017-3, Accounting and Financial Reporting for Postemployment Benefits other Than Pensions (and Certain Issues Related to OPEB Plan Reporting).

Southwest Local School District
Notes to the Basic Financial Statements
For The Fiscal Year Ended June 30, 2018

GASB Statement No. 81 sets out to improve accounting and financial reporting for irrevocable split interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. Examples of these types of agreements include charitable lead trusts, charitable remainder trusts, and life-interests in real estate. This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement requires that a government recognize revenue when the resources become applicable to the reporting period. This Statement also enhances the decision-usefulness of general purpose external financial reports, and their value for assessing accountability, by more clearly identifying the resources that are available for the government to carry out its mission. The implementation of GASB Statement No. 81 did not have an effect on the financial statements of the District.

GASB Statement No. 82 addresses certain issues that have been raised with respect to Statements No. 67, Financial Reporting for Pension Plans, No. 68, Accounting and Financial Reporting for Pensions, and No. 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. This Statement amends Statements 67 and 68 to instead require the presentation of covered payroll, defined as the payroll on which contributions to a pension plan are based, and ratios that use that measure. The implementation of GASB Statement No. 82 was included in the footnote disclosures for 2018.

GASB Statement No. 86 sets out to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. One of the criteria for determining an in-substance defeasance is that the trust hold only monetary assets that are essentially risk-free. If the substitution of essentially risk-free monetary assets with monetary assets that are not essentially risk-free is not prohibited, governments should disclose that fact in the period in which the debt is defeased in substance. In subsequent periods, governments should disclose the amount of debt defeased in substance that remains outstanding for which that risk of substitution exists. The implementation of GASB Statement No. 86 did not have an effect on the financial statements of the District.

GASB 85 addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits (OPEB)). These changes were incorporated in the District's fiscal year 2018 financial statements; however, there was no effect on beginning net position/fund balance.

Southwest Local School District
Notes to the Basic Financial Statements
For The Fiscal Year Ended June 30, 2018

GASB 75 established standards for measuring and recognizing Postemployment benefit liabilities, deferred outflows of resources, deferred inflows of resources and expense/expenditure. The implementation of this pronouncement had the following effect on net position as reported June 30, 2017:

Net position June 30, 2017	(\$25,796,730)
Adjustments:	
Net OPEB Liability	(10,529,668)
Deferred Outflow - Payments Subsequent to Measurement Date	<u>57,662</u>
Restated Net Position June 30, 2017	<u><u>(\$36,268,736)</u></u>

Other than employer contributions subsequent to the measurement date, the District made no restatement for deferred inflows/outflows of resources as the information needed to generate these restatements was not available.

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REQUIRED SUPPLEMENTARY INFORMATION

Southwest Local School District
 Required Supplementary Information
 Schedule of the District's Proportionate Share
 of the Net Pension Liability
 State Teachers Retirement System of Ohio
 Last Five Fiscal Years (1)

	2018	2017	2016	2015	2014
District's Proportion of the Net Pension Liability	0.13813869%	0.13853562%	0.13595540%	0.13816082%	0.13816082%
District's Proportionate Share of the Net Pension Liability	\$32,815,142	\$46,372,048	\$37,574,096	\$33,605,493	\$39,923,138
District's Covered Payroll	\$14,915,486	\$14,637,514	\$14,310,686	\$15,202,085	\$14,685,943
District's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	220.01%	316.80%	262.56%	221.06%	271.85%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	75.30%	66.80%	72.10%	74.70%	69.30%

(1) - The schedule is intended to show information for the past 5 years and the additional years' information will be displayed as it becomes available. Information prior to 2014 is not available.

Note- Amounts presented as of the District's measurement date which is the prior fiscal year end.

See accompanying notes to the required supplementary information.

Southwest Local School District
 Required Supplementary Information
 Schedule of the District's Proportionate Share
 of the Net Pension Liability
 School Employees Retirement System of Ohio
 Last Five Fiscal Years (1)

	2018	2017	2016	2015	2014
District's Proportion of the Net Pension Liability	0.10689670%	0.10844780%	0.10663530%	0.10908800%	0.10908800%
District's Proportionate Share of the Net Pension Liability	\$6,386,842	\$7,937,378	\$6,084,714	\$5,520,882	\$6,489,060
District's Covered Payroll	\$3,516,807	\$3,469,714	\$3,446,495	\$3,201,912	\$3,032,916
District's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	181.61%	228.76%	176.55%	172.42%	213.95%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	69.50%	62.98%	69.16%	71.70%	65.52%

(1) - The schedule is intended to show information for the past 5 years and the additional years' information will be displayed as it becomes available. Information prior to 2014 is not available.

Note- Amounts presented as of the District's measurement date which is the prior fiscal year end.

See accompanying notes to the required supplementary information.

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Southwest Local School District
 Required Supplementary Information
 Schedule of District Contributions
 for Net Pension Liability
 State Teachers Retirement System of Ohio
 Last Ten Fiscal Years

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually Required Contribution	\$2,281,176	\$2,088,168	\$2,049,252	\$2,003,496	\$1,976,271
Contributions in Relation to the Contractually Required Contribution	<u>(2,281,176)</u>	<u>(2,088,168)</u>	<u>(2,049,252)</u>	<u>(2,003,496)</u>	<u>(1,976,271)</u>
Contribution Deficiency (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
District Covered Payroll	\$16,294,114	\$14,915,486	\$14,637,514	\$14,310,686	\$15,202,085
Contributions as a Percentage of Covered Payroll	14.00%	14.00%	14.00%	14.00%	13.00%

See accompanying notes to the required supplementary information.

2013	2012	2011	2010	2009
\$1,963,380	\$2,110,680	\$2,209,896	\$2,216,292	\$2,207,844
(1,963,380)	(2,110,680)	(2,209,896)	(2,216,292)	(2,207,844)
\$0	\$0	\$0	\$0	\$0
\$14,685,943	\$14,956,717	\$16,016,221	\$15,944,840	\$16,373,564
13.37%	14.11%	13.80%	13.90%	13.48%

Southwest Local School District
 Required Supplementary Information
 Schedule of District Contributions
 for Net Pension Liability
 School Employees Retirement System of Ohio
 Last Ten Fiscal Years

	2018	2017	2016	2015	2014
Contractually Required Contribution	\$532,195	\$492,353	\$485,760	\$454,248	\$443,785
Contributions in Relation to the Contractually Required Contribution	<u>(532,195)</u>	<u>(492,353)</u>	<u>(485,760)</u>	<u>(454,248)</u>	<u>(443,785)</u>
Contribution Deficiency (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
District Covered Payroll	\$3,942,185	\$3,516,807	\$3,469,714	\$3,446,495	\$3,201,912
Contributions as a Percentage of Covered Payroll	13.50%	14.00%	14.00%	13.18%	13.86%

See accompanying notes to the required supplementary information.

2013	2012	2011	2010	2009
\$472,440	\$504,648	\$574,654	\$533,124	\$537,012
(472,440)	(504,648)	(574,654)	(533,124)	(537,012)
\$0	\$0	\$0	\$0	\$0
\$3,032,916	\$3,410,568	\$3,919,501	\$3,741,477	\$3,885,210
15.58%	14.80%	14.66%	14.25%	13.82%

Southwest Local School District
 Required Supplementary Information
 Schedule of the District's Proportionate Share
 of the Net Postemployment Benefits Other Than Pension (OPEB) Liability
 State Teachers Retirement System of Ohio
 Last Two Fiscal Years (1)

	2018	2017
District's Proportion of the Net OPEB Liability	0.13813869%	0.13853562%
District's Proportionate Share of the Net OPEB Liability	\$5,389,661	\$7,408,920
District's Covered Payroll	\$14,915,486	\$14,637,514
District's Proportionate Share of the Net OPEB Liability as a Percentage of its Covered Payroll	36.13%	50.62%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	47.10%	37.50%

(1) - The schedule is intended to show information for the past 2 years and the additional years' information will be displayed as it becomes available. Information prior to 2017 is not available.

Note- Amounts presented as of the District's measurement date which is the prior fiscal year end.

See accompanying notes to the required supplementary information.

Southwest Local School District
 Required Supplementary Information
 Schedule of the District's Proportionate Share
 of the Net Postemployment Benefits Other Than Pension (OPEB) Liability
 School Employees Retirement System of Ohio
 Last Two Fiscal Years (1)

	2018	2017
District's Proportion of the Net OPEB Liability	0.10819310%	0.10948570%
District's Proportionate Share of the Net OPEB Liability	\$2,903,619	\$3,120,748
District's Covered Payroll	\$3,516,807	\$3,469,714
District's Proportionate Share of the Net OPEB Liability as a Percentage of its Covered Payroll	82.56%	89.94%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	12.46%	11.49%

(1) - The schedule is intended to show information for the past 2 years and the additional years' information will be displayed as it becomes available. Information prior to 2017 is not available.

Note- Amounts presented as of the District's measurement date which is the prior fiscal year end.

See accompanying notes to the required supplementary information.

Southwest Local School District
 Required Supplementary Information
 Schedule of District Contributions to
 Postemployment Benefits Other Than Pension (OPEB)
 State Teachers Retirement System of Ohio
 Last Three Fiscal Years (1)

	2018	2017	2016
Contractually Required Contribution to OPEB	\$0	\$0	\$0
Contributions to OPEB in Relation to the Contractually Required Contribution	0	0	0
Contribution Deficiency (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
District Covered Payroll	\$16,294,114	\$14,915,486	\$14,637,514
Contributions to OPEB as a Percentage of Covered Payroll	0.00%	0.00%	0.00%

(1) - The schedule is intended to show information for the past 3 years and the additional years' information will be displayed as it becomes available. Information prior to 2016 is not available.

See accompanying notes to the required supplementary information.

Southwest Local School District
 Required Supplementary Information
 Schedule of District Contributions to
 Postemployment Benefits Other Than Pension (OPEB)
 School Employees Retirement System of Ohio
 Last Three Fiscal Years (1)

	2018	2017	2016
Contractually Required Contribution to OPEB (2)	\$80,833	\$57,662	\$53,621
Contributions to OPEB in Relation to the Contractually Required Contribution	(80,833)	(57,662)	(53,621)
Contribution Deficiency (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
District Covered Payroll	\$3,942,185	\$3,516,807	\$3,469,714
Contributions to OPEB as a Percentage of Covered Payroll	2.05%	1.64%	1.55%

(1) - The schedule is intended to show information for the past 3 years and the additional years' information will be displayed as it becomes available. Information prior to 2016 is not available.

(2) - Includes Surcharge.

See accompanying notes to the required supplementary information.

Southwest Local School District
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual (Non-GAAP Budgetary Basis)
For the Fiscal Year Ended June 30, 2018

	General Fund			
	Original Budget	Final Budget	Actual	Variance from Final Budget
Revenues:				
Taxes	\$14,823,874	\$15,234,596	\$16,893,993	\$1,659,397
Revenue in lieu of taxes	391,576	402,426	446,259	43,833
Tuition and Fees	717,949	737,841	818,209	80,368
Investment Earnings	129,199	132,778	147,241	14,463
Intergovernmental	14,416,385	14,815,816	16,429,599	1,613,783
Extracurricular Activities	71,015	72,983	80,932	7,949
Other Revenues	263,735	271,042	300,565	29,523
Total Revenues	30,813,733	31,667,482	35,116,798	3,449,316
Expenditures:				
Current:				
Instruction:				
Regular	16,510,676	17,202,078	17,054,699	147,379
Special	6,137,944	6,394,977	6,340,188	54,789
Vocational	4,983	5,191	5,147	44
Other	1,020,033	1,062,748	1,053,643	9,105
Support Services:				
Pupil	1,546,245	1,610,995	1,597,193	13,802
Instructional Staff	301,043	313,649	310,962	2,687
General Administration	36,311	37,831	37,507	324
School Administration	2,788,323	2,905,087	2,880,198	24,889
Fiscal	1,118,173	1,164,998	1,155,017	9,981
Operations and Maintenance	3,472,108	3,617,506	3,586,513	30,993
Pupil Transportation	1,666,831	1,736,632	1,721,753	14,879
Central	162,920	169,742	168,288	1,454
Extracurricular Activities	608,323	633,797	628,367	5,430
Capital Outlay	209,515	218,288	216,418	1,870
Total Expenditures	35,583,428	37,073,519	36,755,893	317,626
Excess of Revenues Over (Under) Expenditures	(4,769,695)	(5,406,037)	(1,639,095)	3,766,942
Other financing sources (uses):				
Proceeds from Sale of Capital Assets	206,267	211,982	235,072	23,090
Transfers (Out)	(236,551)	(246,457)	(244,345)	2,112
Total Other Financing Sources (Uses)	(30,284)	(34,475)	(9,273)	25,202
Net Change in Fund Balance	(4,799,979)	(5,440,512)	(1,648,368)	3,792,144
Fund Balance Beginning of Year (includes prior year encumbrances appropriated)	9,120,251	9,120,251	9,120,251	0
Fund Balance End of Year	\$4,320,272	\$3,679,739	\$7,471,883	\$3,792,144

See accompanying notes to the required supplementary information.

Southwest Local School District
Notes to the Required Supplementary Information
For The Year Ended June 30, 2018

Note 1 – Budgetary Process

All funds, except agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the appropriations 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 amount 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 the level of control selected by the Board. The legal level of control has been established by the Board at the fund level. Any budgetary modifications at this level may only be made by resolution of the Board.

The certificate of estimated resources may be amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The amounts reported as the original budgeted amounts on the budgetary statements reflect the amounts on the certificate of estimated resources when the original appropriations were adopted. The amounts reported as the final budgeted amounts on the budgetary statements reflect the amounts on the final amended certificate of estimated resources issued during the fiscal year 2018.

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

While the 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 Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual (Non-GAAP Budgetary Basis) 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 basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures for all funds (budget basis) rather than as assigned to a fund balance for governmental fund types and expendable trust funds (GAAP basis).
4. Advances in and advances out are operating transactions (budget basis) as opposed to balance sheet transactions.
5. Some funds are reported as part of the general fund (GAAP basis) as opposed to the general fund being reported alone (budget basis).

Southwest Local School District
Notes to the Required Supplementary Information
For The Year Ended June 30, 2018

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

Net Change in Fund Balance

	<u>General</u>
GAAP Basis	(\$2,080,710)
Revenue Accruals	366,568
Expenditure Accruals	650,463
Transfers (Out)	(1)
Encumbrances	(584,653)
Funds Budgeted Elsewhere	(35)
Budget Basis	<u><u>(\$1,648,368)</u></u>

Note 2 - SERS Change in Assumptions-Net Pension Liability

The COLA was changed from a fixed 3.00% to a COLA that is indexed to CPI-W not greater than 2.5% with a floor of 0% beginning January 1, 2018. In addition, with the authority granted the Board under HB 49, the Board has enacted a three-year COLA suspension for benefit recipients in calendar years 2018, 2019 and 2020.

Note 3 - STRS Change in Assumptions and Benefit Terms-Net Pension Liability

Changes in Assumptions

The Retirement Board approved several changes to the actuarial assumptions in 2017. The long term expected rate of return was reduced from 7.75% to 7.45%, the inflation assumption was lowered from 2.75% to 2.50%, the payroll growth assumption was lowered to 3.00%, and total salary increases rate was lowered by decreasing the merit component of the individual salary increases, in addition to a decrease of 0.25% due to lower inflation. The healthy and disabled mortality assumptions were updated to the RP-2014 mortality tables with generational improvement scale MP-2016. Rates of retirement, termination and disability were modified to better reflect anticipated future experience.

Changes in Benefit Terms

Effective July 1, 2017, the COLA was reduced to zero.

Note 4 - SERS Change in Assumptions-Net OPEB Liability

Amounts reported for fiscal year 2018 incorporate changes in key methods and assumptions used in calculating the total OPEB liability as presented below:

Municipal Bond Index Rate:

Fiscal year 2018	3.56 percent
Fiscal year 2017	2.92 percent

Single Equivalent Interest Rate, net of plan investment expense, including price inflation:

Fiscal year 2018	3.63 percent
Fiscal year 2017	2.98 percent

Southwest Local School District
Notes to the Required Supplementary Information
For The Year Ended June 30, 2018

Note 5 - STRS Change in Assumptions-Net OPEB Liability

For fiscal year 2018, the discount rate was increased from 3.26% to 4.13% based on the methodology defined under *GASB Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans (OPEB)* and the long term expected rate of return was reduced from 7.75% to 7.45%. Valuation year per capita health care costs were updated, and the salary scale was modified. The percentage of future retirees electing each option was updated based on current data and the percentage of future disabled retirees and terminated vested participants electing health coverage were decreased. The assumed mortality, disability, retirement, withdrawal and future health care cost trend rates were modified along with the portion of rebated prescription drug costs.

Also for fiscal year 2018, the subsidy multiplier for non-Medicare benefit recipients was reduced from 2.1% to 1.9% per year of service. Medicare Part B premium reimbursements were discontinued for certain survivors and beneficiaries and all remaining Medicare Part B premium reimbursements will be discontinued beginning January 2019.

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**SOUTHWEST LOCAL SCHOOL DISTRICT
HAMILTON COUNTY**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2018**

FEDERAL GRANTOR Pass Through Grantor Program / Cluster Title	Federal CFDA Number	Pass Through Entity Identifying Number	Total Federal Expenditures
U.S. DEPARTMENT OF AGRICULTURE			
<i>Passed Through Ohio Department of Education</i>			
Child Nutrition Cluster:			
Non-Cash Assistance (Food Distribution):			
National School Lunch Program	10.555	3L60	109,043
Cash Assistance:			
School Breakfast Program	10.553	3L70	169,576
School Lunch Program	10.555	3L60	599,103
Total Child Nutrition Cluster			<u>877,722</u>
Total U.S. Department of Agriculture			<u>877,722</u>
U.S. DEPARTMENT OF EDUCATION			
<i>Passed Through Ohio Department of Education</i>			
Special Education Cluster:			
Special Education-Grants to States	84.027	H027A170111	908,804
Special Education-Preschool Grants	84.173	H173A170119	19,521
Total Special Education Cluster			<u>928,325</u>
Improving Teacher Quality State Grants	84.367	S637A170034	125,202
Title I Cluster Grants to Local Educational Agencies	84.010	S010A170035	747,213
Title IV-A Student Support & Academic Enrichment	84.424	N/A	17,168
Total U.S. Department of Education			<u>1,817,908</u>
Total Expenditures of Federal Awards			<u>\$2,695,630</u>

The accompanying notes are an integral part of this schedule.

**SOUTHWEST LOCAL SCHOOL DISTRICT
HAMILTON COUNTY**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
2 CFR 200.510(b)(6)
FOR THE YEAR ENDED JUNE 30, 2018**

NOTE A – BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal award activity of the Southwest Local School District (the District's) under programs of the federal government for the year ended June 30, 2018. The information on this Schedule is prepared in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial position or changes in net position of the District.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the cash basis of accounting. Such expenditures are recognized following the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, wherein certain types of expenditures may or may not be allowable or may be limited as to reimbursement.

NOTE C – INDIRECT COST RATE

The District has elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

NOTE D - CHILD NUTRITION CLUSTER

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

NOTE E – FOOD DONATION PROGRAM

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

OHIO AUDITOR OF STATE KEITH FABER



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

Southwest Local School District
Hamilton County
230 South Elm Street
Harrison, Ohio 45030

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 Southwest Local School District, Hamilton County, Ohio (the District) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated February 25, 2019,, wherein we noted the District adopted new accounting guidance in Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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



Keith Faber
Auditor of State
Columbus, Ohio

February 25, 2019

OHIO AUDITOR OF STATE KEITH FABER



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

Southwest Local School District
Hamilton County
230 South Elm Street
Harrison, Ohio 45030

To the Board of Education:

Report on Compliance for the Major Federal Program

We have audited the Southwest Local School District, Hamilton County, Ohio (the District's), compliance with the applicable requirements described in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could directly and materially affect the District's major federal program for the year ended June 30, 2018. The *Summary of Auditor's Results* in the accompanying schedule of findings identifies the District's major federal program.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to opine on the District's compliance for the 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 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 District's major program. However, our audit does not provide a legal determination of the District's compliance.

Opinion on the Major Federal Program

In our opinion, the District complied, in all material respects with the compliance requirements referred to the above that could directly and materially affect its major federal program for the year ended June 30, 2018.

Report on Internal Control Over Compliance

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

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

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

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



Keith Faber
Auditor of State
Columbus, Ohio

February 25, 2019

**SOUTHWEST LOCAL SCHOOL DISTRICT
HAMILTON COUNTY**

**SCHEDULE OF FINDINGS
2 CFR § 200.515
JUNE 30, 2018**

1. SUMMARY OF AUDITOR'S RESULTS

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

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

None.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None.

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OHIO AUDITOR OF STATE
KEITH FABER



SOUTHWEST LOCAL SCHOOL DISTRICT

HAMILTON COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MARCH 12, 2019**