



OHIO AUDITOR OF STATE  
**KEITH FABER**





**NORTHWEST LOCAL SCHOOL DISTRICT  
STARK COUNTY  
JUNE 30, 2019**

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# OHIO AUDITOR OF STATE KEITH FABER



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## INDEPENDENT AUDITOR'S REPORT

Northwest Local School District  
Stark County  
2309 Locust Street South  
Canal Fulton, Ohio 44614

To the Board of Education:

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

We have audited the accompanying cash-basis financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the Northwest Local School District, Stark County, Ohio (the District), as of and for the year ended June 30, 2019, 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 the cash accounting basis Note 2B describes. This responsibility includes determining that the cash accounting basis is acceptable for the circumstances. Management is also responsible for 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 cash financial position of the governmental activities, the major fund, and the aggregate remaining fund information of the Northwest Local School District, Stark County, Ohio, as of June 30, 2019, and the respective changes in cash financial position and the budgetary comparison for the General Fund for the year then ended in accordance with the accounting basis described in Note 2B.

***Accounting Basis***

Ohio Administrative Code § 117-2-03(B) requires the District to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America. We draw attention to Note 2B of the financial statements, which describes the basis applied to these statements. The financial statements are prepared on the cash basis of accounting, which is a basis other than generally accepted accounting principles. We did not modify our opinion regarding this matter.

***Other Matters***

*Supplementary Information*

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

The Schedule of Receipts and Expenditures of Federal Awards (Schedule) 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 schedule to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling this schedule directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and in accordance with auditing standards generally accepted in the United States of America. In our opinion, this schedule is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Other Information*

We applied no procedures to management's discussion & analysis as listed in the table of contents. Accordingly, we express no opinion or any other assurance on them.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated December 12, 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.

A handwritten signature in black ink that reads "Keith Faber". The signature is written in a cursive, flowing style.

Keith Faber  
Auditor of State

Columbus, Ohio

December 12, 2019

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**NORTHWEST LOCAL SCHOOL DISTRICT  
STARK COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2019  
(UNAUDITED)

The management's discussion and analysis of the Northwest Local School District's ("the District") financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2019 within the limitations of the District's cash basis of accounting. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the cash basis financial statements and the notes to the financial statements to enhance their understanding of the District's financial performance.

**Financial Highlights**

Key financial highlights for fiscal year 2019 are as follows:

- The total net cash position of the District increased \$2,882,165 or 26.48% from fiscal year 2018.
- General cash receipts accounted for \$21,530,638 or 85.66% of all governmental activities cash receipts. Program specific cash receipts in the form of charges for services and sales, grants and contributions accounted for \$3,605,686 or 14.34% of total cash receipts.
- The District had \$22,254,159 in cash disbursements related to governmental activities; only \$3,605,686 of these cash disbursements were offset by program specific charges for services and sales, grants or contributions. General cash receipts supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$21,530,638 were adequate to provide for these programs.
- The District's only major governmental fund is the general fund. The general fund had \$21,174,471 in cash receipts and other financing sources and \$18,684,648 in cash disbursements. During fiscal year 2019, the general fund's cash balance increased from \$9,961,087 to \$12,450,910.

**Using these Cash Basis Basic Financial Statements (BFS)**

This annual report is presented in a format consistent with the presentation requirements of the Governmental Accounting Standards Board (GASB) Statement No. 34, as applicable to the District's cash basis of accounting. The District has elected to present its financial statements on the cash basis of accounting. This basis of accounting is a basis of accounting other than generally accepted accounting principles. Basis of accounting is a reference to when financial events are recorded, such as the timing for recognizing revenues, expenses, and the related assets and liabilities. Under the District's cash basis of accounting, receipts and disbursements and the related assets and liabilities are recorded when they result in cash transactions.

As a result of using the cash basis of accounting, certain assets and their related revenues (such as accounts receivable) and certain liabilities and their related expenses (such as accounts payable) are not recorded in the financial statements. Therefore, when reviewing the financial information and discussion within this report, the reader must keep in mind the limitations resulting from the use of the cash basis of accounting.

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

**NORTHWEST LOCAL SCHOOL DISTRICT  
STARK COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2019  
(UNAUDITED)

**Reporting the District as a Whole**

*Statement of Net Position and the Statement of Activities*

While this document contains the large number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2019?" The statement of net position - cash basis and the statement of activities - cash basis answer this question. These statements include only net position using the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. This basis of accounting will take into account only the current year's receipts and disbursements if the cash is actually received or paid.

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

The statement of net position - cash basis and the statement of activities - cash basis include the District's programs and services, including instruction, support services, operation and maintenance of facilities, pupil transportation, extracurricular activities, and food service operations.

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

*Fund Financial Statements*

The analysis of the District's major governmental funds begins on page 11. Fund financial reports provide detailed information about the District's major funds. The District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the District's most significant funds. The District's only major governmental fund is the general fund; all other governmental funds are considered non-major.

*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 the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. The governmental fund statements provide a detailed 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 cash basis financial resources that can be readily spent to finance various District programs.

Since the District is reporting on the cash basis of accounting, there are no differences in the net cash position and fund cash balances or changes in net cash position and changes in fund cash balances. Therefore, no reconciliation is necessary between such financial statements.

**NORTHWEST LOCAL SCHOOL DISTRICT  
STARK COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2019  
(UNAUDITED)

***Reporting the District's Fiduciary Responsibilities***

The District is the trustee, or fiduciary, for its scholarship programs. This activity is presented as a private-purpose trust fund. The District also acts in a trustee capacity as an agent for individuals. These activities are reported in an agency fund. All of the District's fiduciary activities are reported in separate statements of fiduciary net position - cash basis and statement of changes in fiduciary net position - cash basis. These activities are excluded from the District's other financial statements because the assets cannot be utilized by the District to finance its operations.

***Notes to the Basic Financial Statements***

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

**The District as a Whole**

The statement of net position - cash basis provides the perspective of the District as a whole. The table below provides a summary of the District's net cash position at June 30, 2019 and 2018.

	<b>Net Cash Position</b>	
	Governmental Activities 2019	Governmental Activities 2018
<b><u>Assets</u></b>		
Equity in pooled cash and cash equivalents	\$ 12,857,940	\$ 10,090,775
Restricted assets: cash in segregated accounts	<u>910,000</u>	<u>795,000</u>
Total assets	<u>13,767,940</u>	<u>10,885,775</u>
<b><u>Net cash position</u></b>		
Restricted	2,323,392	2,013,234
Unrestricted	<u>11,444,548</u>	<u>8,872,541</u>
Total net cash position	<u>\$ 13,767,940</u>	<u>\$ 10,885,775</u>

At June 30, 2019, the District's net cash position was \$13,767,940. A portion of this amount, or \$2,323,392, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net cash position of \$11,444,548 may be used to meet the District's ongoing obligations to its students and creditors.

The table on the following page shows the change in net cash position for fiscal years 2019 and 2018.

**NORTHWEST LOCAL SCHOOL DISTRICT  
STARK COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2019  
(UNAUDITED)

	<b>Change in Net Cash Position</b>	
	Governmental Activities <u>2019</u>	Governmental Activities <u>2018</u>
<b><u>Cash receipts</u></b>		
Program cash receipts:		
Charges for services and sales	\$ 1,326,966	\$ 1,004,654
Operating grants and contributions	2,278,720	1,828,636
General cash receipts:		
Property taxes	8,750,872	8,429,870
Income taxes	3,190,611	3,244,945
Unrestricted grants and entitlements	9,359,577	9,343,066
Investment earnings	120,125	66,862
Miscellaneous	<u>109,453</u>	<u>110,898</u>
Total cash receipts	<u>25,136,324</u>	<u>24,028,931</u>
<b><u>Cash disbursements</u></b>		
Program disbursements:		
Instruction:		
Regular	8,472,656	8,847,484
Special	3,380,468	3,282,545
Vocational	46,113	35,750
Other	187,512	160,492
Support services:		
Pupil	727,904	733,992
Instructional staff	290,282	287,889
Board of education	50,361	41,139
Administration	1,875,609	1,806,269
Fiscal	491,522	545,919
Operations and maintenance	2,090,863	2,255,819
Pupil transportation	1,505,751	1,637,306
Central	281,520	288,582
Food service operations	551,065	561,721
Other non-instructional services	87,869	131,403
Extracurricular activities	461,529	422,600
Facilities acquisition and construction	55,266	261,676
Principal retirement	1,127,000	1,207,861
Interest and fiscal charges	<u>570,869</u>	<u>599,467</u>
Total cash disbursements	<u>22,254,159</u>	<u>23,107,914</u>
Change in net cash position	2,882,165	921,017
Net cash position at beginning of year	<u>10,885,775</u>	<u>9,964,758</u>
Net cash position at end of year	<u>\$ 13,767,940</u>	<u>\$ 10,885,775</u>

**NORTHWEST LOCAL SCHOOL DISTRICT  
STARK COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2019  
(UNAUDITED)

**Governmental Activities**

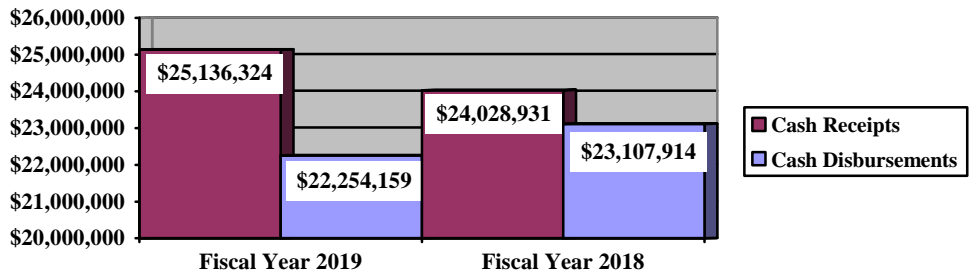
Net cash position of the District's governmental activities increased \$2,882,165. Total governmental cash disbursements of \$22,254,159 were offset by program cash receipts of \$3,605,686 and general cash receipts of \$21,530,638. Program cash receipts supported 16.20% of the total governmental disbursements.

The primary sources of receipts for governmental activities are derived from taxes and unrestricted grants and entitlements. These sources represent 84.74% of total governmental cash receipts. Although income tax receipts decreased somewhat in fiscal year 2019, total cash receipts increased \$1,107,393 or 4.61%. The increase in charges for services and sales is primarily a result of higher tuition payments received from other school districts. Operating grants and contributions increased due to additional federal grant funding, which is mostly related to the District's special education programs. Finally, property tax receipts increased due to higher assessed property values as a result of a County-wide reappraisal.

Total cash disbursements in fiscal year 2019 decreased \$853,755 or 3.69%. This is a result of several factors including; a) decreased facilities maintenance costs, b) a decrease in equipment purchases and other capital outlays, and c) lower debt service costs as the District made the final payment on a lease-purchase obligation in the prior fiscal year. The largest disbursement of the District is for instructional programs. Instruction disbursements totaled \$12,086,749 or 54.31% of total governmental cash disbursements for fiscal year 2019.

The graph below presents the District's governmental activities cash receipts and disbursements for fiscal years 2019 and 2018.

**Governmental Activities - Cash Receipts and Cash Disbursements**



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

**NORTHWEST LOCAL SCHOOL DISTRICT  
STARK COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2019  
(UNAUDITED)**

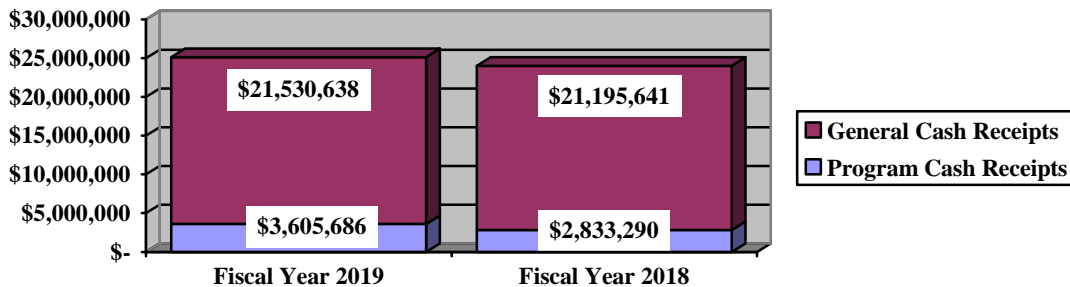
**Governmental Activities**

	Total Cost of Services <u>2019</u>	Net Cost of Services <u>2019</u>	Total Cost of Services <u>2018</u>	Net Cost of Services <u>2018</u>
<b>Program cash disbursements</b>				
Instruction:				
Regular	\$ 8,472,656	\$ 7,651,822	\$ 8,847,484	\$ 8,370,562
Special	3,380,468	1,906,670	3,282,545	1,926,284
Vocational	46,113	34,824	35,750	24,461
Other	187,512	187,512	160,492	160,492
Support services:				
Pupil	727,904	727,257	733,992	732,626
Instructional staff	290,282	290,282	287,889	287,889
Board of education	50,361	50,361	41,139	41,139
Administration	1,875,609	1,875,515	1,806,269	1,805,742
Fiscal	491,522	491,522	545,919	545,919
Operations and maintenance	2,090,863	2,079,531	2,255,819	2,246,627
Pupil transportation	1,505,751	1,200,829	1,637,306	1,574,133
Central	281,520	177,313	288,582	187,831
Food service operations	551,065	(46,546)	561,721	31,127
Other non-instructional services	87,869	(33,593)	131,403	14,785
Extracurricular activities	461,529	302,039	422,600	256,003
Facilities acquisition and construction	55,266	55,266	261,676	261,676
Principal retirement	1,127,000	1,127,000	1,207,861	1,207,861
Interest and fiscal charges	570,869	570,869	599,467	599,467
<b>Total</b>	<b><u>\$ 22,254,159</u></b>	<b><u>\$ 18,648,473</u></b>	<b><u>\$ 23,107,914</u></b>	<b><u>\$ 20,274,624</u></b>

The dependence upon general cash receipts for governmental activities is apparent, with 83.80% and 87.74% of cash disbursements supported through taxes and other general cash receipts during fiscal years 2019 and 2018, respectively.

The graph below presents the District's governmental activities cash receipts for fiscal years 2019 and 2018.

**Governmental Activities - General and Program Cash Receipts**



**NORTHWEST LOCAL SCHOOL DISTRICT  
STARK COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2019  
(UNAUDITED)

**The District's Funds**

The District's governmental funds reported a combined fund cash balance of \$13,767,940, compared to last year's combined fund cash balance of \$10,885,775. The schedule below indicates the fund cash balance and the total change in fund cash balance as of June 30, 2019 and June 30, 2018, for all major and nonmajor governmental funds.

	Fund Cash Balance <u>June 30, 2019</u>	Fund Cash Balance <u>June 30, 2018</u>	<u>Change</u>
General fund	\$ 12,450,910	\$ 9,961,087	\$ 2,489,823
Nonmajor governmental funds	<u>1,317,030</u>	<u>924,688</u>	<u>392,342</u>
Total	<u>\$ 13,767,940</u>	<u>\$ 10,885,775</u>	<u>\$ 2,882,165</u>

**General Fund**

The table that follows assists in illustrating the cash receipts and disbursements of the general fund.

	<u>2019 Amount</u>	<u>2018 Amount</u>	<u>Increase (Decrease)</u>	<u>Percentage Change</u>
<b><u>Cash receipts</u></b>				
Property taxes	\$ 7,023,420	\$ 6,810,269	\$ 213,151	3.13 %
Income taxes	3,190,611	3,244,945	(54,334)	(1.67) %
Tuition	720,555	413,729	306,826	74.16 %
Earnings on investments	96,259	57,473	38,786	67.49 %
Intergovernmental	9,897,118	9,962,682	(65,564)	(0.66) %
Other	<u>244,662</u>	<u>221,048</u>	<u>23,614</u>	10.68 %
Total	<u>\$ 21,172,625</u>	<u>\$ 20,710,146</u>	<u>\$ 462,479</u>	2.23 %
<b><u>Cash disbursements</u></b>				
Instruction	\$ 11,418,982	\$ 11,459,318	\$ (40,336)	(0.35) %
Support services	6,871,034	7,465,929	(594,895)	(7.97) %
Operation of non-instructional services	1,319	1,907	(588)	(30.83) %
Extracurricular activities	306,705	304,560	2,145	0.70 %
Debt service	<u>86,608</u>	<u>189,050</u>	<u>(102,442)</u>	(54.19) %
Total	<u>\$ 18,684,648</u>	<u>\$ 19,420,764</u>	<u>\$ (736,116)</u>	(3.79) %

As the preceding table shows, the main sources of revenue for the general fund are property taxes, income taxes, and intergovernmental receipts. Tuition and property tax receipts increased as discussed on page 9. Earnings on investments increased as a result of the improving interest rates on District investments. All other general fund cash receipts were comparable to the prior year.

Total cash disbursements decreased mainly due to a decline in support services disbursements. This was mostly due to lower pupil transportation and facilities maintenance costs. Debt service disbursements also decreased as the District made the final payment on a lease-purchase obligation in fiscal year 2018.

**NORTHWEST LOCAL SCHOOL DISTRICT  
STARK COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2019  
(UNAUDITED)

***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.

For the general fund, original budgetary basis receipts and other financing sources of \$19,569,182 were increased to \$19,819,182 in the final budget. The actual budgetary basis receipts and other financing sources were \$21,078,972 or \$1,259,790 higher than the final budget. This variance is a result of the District's conservative budget estimates.

Original budgetary basis disbursements of \$19,540,047 were increased to \$19,790,047 in the final budget. The actual budgetary basis disbursements of \$19,164,764 were \$625,283 less than the final budget estimates.

**Capital Assets and Debt Administration**

***Capital Assets***

The District does not record capital assets in the accompanying cash basis basic financial statements, but records payments for capital assets as disbursements. The District had facilities acquisition and construction disbursements of \$55,266 during fiscal year 2019.

***Debt Administration***

At June 30, 2019, the District had \$16,099,008 in general obligation bonds, an energy conservation note, and a lease-purchase obligation outstanding. Of the total outstanding debt, \$1,030,515 is due within one year and \$15,068,493 is due in more than one year. Total debt additions during the year (accreted interest on capital appreciation bonds) were \$297,064 and reductions were \$1,127,000.

The following table summarizes the District's outstanding debt.

**Outstanding Debt at Year End**

	Governmental Activities <u>2019</u>	Governmental Activities <u>2018</u>
General obligation bonds	\$ 12,503,008	\$ 13,205,944
Energy conservation note	1,715,000	1,715,000
Lease-purchase obligation	<u>1,881,000</u>	<u>2,008,000</u>
Total	<u>\$ 16,099,008</u>	<u>\$ 16,928,944</u>

See Notes 7 and 8 in the notes to the basic financial statements for additional information on the District's debt administration.



**NORTHWEST LOCAL SCHOOL DISTRICT  
STARK COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2019  
(UNAUDITED)**

**Current Financial Related Activities**

The Ohio Department of Education requires that each school district prepare and submit a revenue and expenditure projection each May and October. The Five Year Forecast presents a three year historical look at what the District's revenues and expenditures were and then forecasts what we believe our anticipated revenues and expenditures will be for the next five years. In the five year forecast that was prepared for May 2019, amounts for fiscal year 2020 expenditures included an allocation for busses, an appropriation for closed-circuit television surveillance, and an amount to replace and add student Chromebooks in all buildings. In connection with a mandate from our Board of Education we have partnered with First Energy to redesign our electric supply in a way that we believe will ultimately save the District thousands of dollars for years to come. When the campus was built, each building including the annex and stadium were given an electric meter. Utility companies typically charge for electricity based on the highest demand that a meter may incur and with multiple meters this is expensive for the District. After some research, we determined that we could realize a significant cost savings if we combined all of the meters into one main meter. There was a cost to the project, but in time we will begin to see significant savings. Finally, we are approaching the completion of an Ohio Facilities Construction Commission (OFCC) Corrective Action Plan that will resolve issues with our building automation controls in the Middle School and Stinson Elementary.

Revenues for the District have remained mostly consistent. The Ohio Biennial budget has not yet been passed but projections indicate that our funding should stay consistent due to receiving an amount from the Transitional Aid Guarantee. The Stark County Real Estate Re-Appraisal increased the valuations in the District which will increase real estate tax revenues in the second half of fiscal year 2019 and beyond. The School District Earned Income Tax, first collected in 2011, remains strong and is a vital source of income for the continued success of the District. The Board of Education passed a resolution to put a renewal of the 1% School District Income on the November 5, 2019 ballot. The renewal levy passed and will now continue for an additional five (5) years.

**Contacting the District's Financial Management**

This financial report is designed to provide our citizens, taxpayers, 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 Dan Levengood, Treasurer, Northwest Local School District, 2309 Locust Street S., Canal Fulton, Ohio 44614.

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**NORTHWEST LOCAL SCHOOL DISTRICT  
STARK COUNTY, OHIO**

STATEMENT OF NET POSITION - CASH BASIS  
JUNE 30, 2019

	<b>Governmental Activities</b>
<b>Assets:</b>	
Equity in pooled cash and cash equivalents . . . . .	\$ 12,857,940
Restricted assets:	
Cash in segregated accounts . . . . .	910,000
Total assets. . . . .	13,767,940
 <b>Net cash position:</b>	
Restricted for:	
Classroom facilities maintenance . . . . .	177,383
Debt service. . . . .	1,795,639
Locally funded programs . . . . .	9,279
State funded programs. . . . .	134,322
Federally funded programs . . . . .	3,449
Food service operations . . . . .	203,320
Unrestricted . . . . .	11,444,548
Total net cash position. . . . .	\$ 13,767,940

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**NORTHWEST LOCAL SCHOOL DISTRICT  
STARK COUNTY, OHIO**

STATEMENT OF ACTIVITIES - CASH BASIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

	<u>Cash Disbursements</u>	<u>Program Cash Receipts</u>		<u>Net Receipts (Disbursements) and Changes in Net Cash Position Governmental Activities</u>
		<u>Charges for Services and Sales</u>	<u>Operating Grants and Contributions</u>	
<b>Governmental activities:</b>				
Instruction:				
Regular . . . . .	\$ 8,472,656	\$ 752,650	\$ 68,184	\$ (7,651,822)
Special . . . . .	3,380,468	27,881	1,445,917	(1,906,670)
Vocational . . . . .	46,113	-	11,289	(34,824)
Other . . . . .	187,512	-	-	(187,512)
Support services:				
Pupil . . . . .	727,904	-	647	(727,257)
Instructional staff . . . . .	290,282	-	-	(290,282)
Board of education . . . . .	50,361	-	-	(50,361)
Administration . . . . .	1,875,609	-	94	(1,875,515)
Fiscal . . . . .	491,522	-	-	(491,522)
Operations and maintenance . . . . .	2,090,863	11,332	-	(2,079,531)
Pupil transportation . . . . .	1,505,751	-	304,922	(1,200,829)
Central . . . . .	281,520	64,699	39,508	(177,313)
Operation of non-instructional services:				
Food service operations . . . . .	551,065	314,404	283,207	46,546
Other non-instructional services . . . . .	87,869	-	121,462	33,593
Extracurricular activities . . . . .	461,529	156,000	3,490	(302,039)
Facilities acquisition and construction . . . . .	55,266	-	-	(55,266)
Principal retirement . . . . .	1,127,000	-	-	(1,127,000)
Interest and fiscal charges . . . . .	570,869	-	-	(570,869)
<b>Total governmental activities . . . . .</b>	<b>\$ 22,254,159</b>	<b>\$ 1,326,966</b>	<b>\$ 2,278,720</b>	<b>(18,648,473)</b>

**General cash receipts:**

Property taxes levied for:	
General purposes . . . . .	7,430,637
Debt service . . . . .	1,013,489
Capital projects . . . . .	167,187
Special revenue . . . . .	139,559
School District income tax . . . . .	3,190,611
Grants and entitlements not restricted to specific programs . . . . .	9,359,577
Investment earnings . . . . .	120,125
Miscellaneous . . . . .	109,453
<b>Total general cash receipts . . . . .</b>	<b>21,530,638</b>
Change in net cash position . . . . .	2,882,165
<b>Net cash position at beginning of year . . . . .</b>	<b>10,885,775</b>
<b>Net cash position at end of year . . . . .</b>	<b>\$ 13,767,940</b>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**NORTHWEST LOCAL SCHOOL DISTRICT  
STARK COUNTY, OHIO**

STATEMENT OF ASSETS AND FUND CASH BALANCES  
GOVERNMENTAL FUNDS  
JUNE 30, 2019

	<b>General</b>	<b>Nonmajor Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>Assets:</b>			
Equity in pooled cash and cash equivalents. . . . .	\$ 11,540,910	\$ 1,317,030	\$ 12,857,940
Restricted assets:			
Cash in segregated accounts . . . . .	910,000	-	910,000
Total assets . . . . .	\$ 12,450,910	\$ 1,317,030	\$ 13,767,940
 <b>Fund cash balances:</b>			
Restricted:			
Debt service . . . . .	\$ 910,000	\$ 885,639	\$ 1,795,639
Classroom facilities maintenance . . . . .	-	177,383	177,383
Food service operations . . . . .	-	203,320	203,320
Non-public schools . . . . .	-	131,071	131,071
Special education . . . . .	-	2,349	2,349
Other purposes . . . . .	-	13,630	13,630
Committed:			
Capital improvements . . . . .	-	216,778	216,778
Assigned:			
Student instruction . . . . .	369,049	-	369,049
Student and staff support . . . . .	142,790	-	142,790
Subsequent year's appropriations . . . . .	2,977,667	-	2,977,667
School supplies . . . . .	32	-	32
Unassigned (deficit). . . . .	8,051,372	(313,140)	7,738,232
Total fund cash balances . . . . .	\$ 12,450,910	\$ 1,317,030	\$ 13,767,940

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**NORTHWEST LOCAL SCHOOL DISTRICT  
STARK COUNTY, OHIO**

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN FUND BALANCES - CASH BASIS  
GOVERNMENTAL FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

	<u>General</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Cash receipts:</b>			
From local sources:			
Property taxes . . . . .	\$ 7,023,420	\$ 1,727,452	\$ 8,750,872
Income taxes . . . . .	3,190,611	-	3,190,611
Tuition . . . . .	720,555	-	720,555
Earnings on investments . . . . .	96,259	30,022	126,281
Charges for services . . . . .	-	314,404	314,404
Extracurricular . . . . .	105,128	112,220	217,348
Classroom materials and fees . . . . .	59,976	-	59,976
Other local revenues . . . . .	79,558	10,046	89,604
Intergovernmental - intermediate . . . . .	65,412	12,500	77,912
Intergovernmental - state . . . . .	9,741,014	407,972	10,148,986
Intergovernmental - federal . . . . .	90,692	1,347,237	1,437,929
Total cash receipts . . . . .	<u>21,172,625</u>	<u>3,961,853</u>	<u>25,134,478</u>
<b>Cash disbursements:</b>			
Current:			
Instruction:			
Regular . . . . .	8,439,817	32,839	8,472,656
Special . . . . .	2,745,540	634,928	3,380,468
Vocational . . . . .	46,113	-	46,113
Other . . . . .	187,512	-	187,512
Support services:			
Pupil . . . . .	727,361	543	727,904
Instructional staff . . . . .	290,282	-	290,282
Board of education . . . . .	50,361	-	50,361
Administration . . . . .	1,875,534	75	1,875,609
Fiscal . . . . .	467,403	24,119	491,522
Operations and maintenance . . . . .	1,905,821	185,042	2,090,863
Pupil transportation . . . . .	1,272,752	232,999	1,505,751
Central . . . . .	281,520	-	281,520
Operation of non-instructional services:			
Food service operations . . . . .	-	551,065	551,065
Other non-instructional services . . . . .	1,319	86,550	87,869
Extracurricular activities . . . . .	306,705	154,824	461,529
Facilities acquisition and construction . . . . .	-	55,266	55,266
Debt service:			
Principal retirement . . . . .	-	1,127,000	1,127,000
Interest and fiscal charges . . . . .	86,608	484,261	570,869
Total cash disbursements . . . . .	<u>18,684,648</u>	<u>3,569,511</u>	<u>22,254,159</u>
Excess (deficiency) of cash receipts over (under) cash disbursements . . . . .	<u>2,487,977</u>	<u>392,342</u>	<u>2,880,319</u>
<b>Other financing sources:</b>			
Proceeds from sale of assets . . . . .	<u>1,846</u>	<u>-</u>	<u>1,846</u>
Total other financing sources . . . . .	<u>1,846</u>	<u>-</u>	<u>1,846</u>
Net change in fund cash balances . . . . .	2,489,823	392,342	2,882,165
<b>Fund cash balances at beginning of year . . .</b>	<u>9,961,087</u>	<u>924,688</u>	<u>10,885,775</u>
<b>Fund cash balances at end of year . . . . .</b>	<u>\$ 12,450,910</u>	<u>\$ 1,317,030</u>	<u>\$ 13,767,940</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**NORTHWEST LOCAL SCHOOL DISTRICT  
STARK COUNTY, OHIO**

STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS AND CHANGES IN  
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)  
GENERAL FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

	<u>Budgeted Amounts</u>		<u>Actual</u>	<b>Variance with Final Budget Positive (Negative)</b>
	<u>Original</u>	<u>Final</u>		<u>Actual</u>
<b>Budgetary basis receipts:</b>				
From local sources:				
Property taxes . . . . .	\$ 6,572,679	\$ 6,656,650	\$ 7,023,420	\$ 366,770
Income taxes . . . . .	3,112,172	3,151,933	3,190,611	38,678
Tuition . . . . .	323,330	327,460	720,555	393,095
Earnings on investments . . . . .	12,190	12,346	96,259	83,913
Extracurricular . . . . .	35,555	36,009	40,429	4,420
Classroom materials and fees . . . . .	53,841	54,529	59,976	5,447
Other local revenues . . . . .	6,603	6,687	48,688	42,001
Intergovernmental - intermediate . . . . .	51,264	51,919	65,412	13,493
Intergovernmental - state . . . . .	9,400,548	9,520,649	9,741,014	220,365
Intergovernmental - federal . . . . .	-	-	90,692	90,692
Total budgetary basis receipts . . . . .	<u>19,568,182</u>	<u>19,818,182</u>	<u>21,077,056</u>	<u>1,258,874</u>
<b>Budgetary basis disbursements:</b>				
Current:				
Instruction:				
Regular . . . . .	9,516,070	9,516,070	8,461,435	1,054,635
Special . . . . .	2,493,984	2,743,984	3,093,041	(349,057)
Vocational . . . . .	43,650	43,650	46,113	(2,463)
Other . . . . .	161,850	161,850	187,512	(25,662)
Support services:				
Pupil . . . . .	797,520	797,520	727,361	70,159
Instructional staff . . . . .	295,100	295,100	301,984	(6,884)
Board of education . . . . .	50,350	50,350	52,361	(2,011)
Administration . . . . .	1,891,650	1,891,650	1,892,652	(1,002)
Fiscal . . . . .	468,800	468,800	474,675	(5,875)
Operations and maintenance . . . . .	1,775,432	1,775,432	1,955,499	(180,067)
Pupil transportation . . . . .	1,261,380	1,261,380	1,275,094	(13,714)
Central . . . . .	335,980	335,980	188,724	147,256
Extracurricular activities . . . . .	287,750	287,750	306,705	(18,955)
Debt service:				
Principal . . . . .	115,000	115,000	115,000	-
Interest and fiscal charges . . . . .	45,531	45,531	86,608	(41,077)
Total budgetary basis disbursements . . . . .	<u>19,540,047</u>	<u>19,790,047</u>	<u>19,164,764</u>	<u>625,283</u>
Excess of budgetary basis receipts over budgetary basis disbursements . . . . .	<u>28,135</u>	<u>28,135</u>	<u>1,912,292</u>	<u>1,884,157</u>
<b>Other financing sources:</b>				
Refund of prior year's expenditures . . . . .	-	-	70	70
Proceeds from sale of assets . . . . .	1,000	1,000	1,846	846
Total other financing sources . . . . .	<u>1,000</u>	<u>1,000</u>	<u>1,916</u>	<u>916</u>
Net change in fund cash balance . . . . .	29,135	29,135	1,914,208	1,885,073
<b>Unencumbered fund balance</b>				
at beginning of year . . . . .	8,581,706	8,581,706	8,581,706	-
Prior year encumbrances appropriated . . . . .	533,125	533,125	533,125	-
Unencumbered fund balance at end of year . . . . .	<u>\$ 9,143,966</u>	<u>\$ 9,143,966</u>	<u>\$ 11,029,039</u>	<u>\$ 1,885,073</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**NORTHWEST LOCAL SCHOOL DISTRICT  
STARK COUNTY, OHIO**

STATEMENT OF FIDUCIARY NET POSITION - CASH BASIS  
FIDUCIARY FUNDS  
JUNE 30, 2019

	<b>Private Purpose Trust</b>	
	<b>Scholarship</b>	<b>Agency</b>
<b>Assets:</b>		
Equity in pooled cash and cash equivalents . . . . .	\$ 5,355	\$ 85,687
Total assets. . . . .	5,355	\$ 85,687
<b>Liabilities:</b>		
Due to students. . . . .	-	\$ 85,687
Total liabilities . . . . .	-	\$ 85,687
<b>Net cash position:</b>		
Held in trust for scholarships . . . . .	5,355	
Total net cash position. . . . .	\$ 5,355	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS



**NORTHWEST LOCAL SCHOOL DISTRICT  
STARK COUNTY, OHIO**

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION - CASH BASIS  
FIDUCIARY FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

	<b>Private Purpose Trust</b>
	<b>Scholarship</b>
<b>Additions:</b>	
Gifts and contributions . . . . .	\$ 5,850
<b>Deductions:</b>	
Scholarships awarded . . . . .	1,000
Change in net position. . . . .	4,850
<b>Net cash position at beginning of year. . . . .</b>	<b>505</b>
<b>Net cash position at end of year . . . . .</b>	<b>\$ 5,355</b>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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**NORTHWEST LOCAL SCHOOL DISTRICT  
STARK COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

**NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT**

The Northwest Local School District (the “District”) is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The District is a local district as defined by Section 3311.03 of the Ohio Revised Code. The District is governed by a five-member board of education (the Board) elected by its citizens, which is responsible for the provision of public education to residents of the District.

The District employs 82 non-certified and 142 certified employees to provide services to approximately 1,805 students in grades K through 12 and various community groups. The District operates two elementary schools, one middle school and a high school.

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

As discussed in Note 2.B., these financial statements are presented on the cash basis of accounting. The cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements. In cases where these cash basis statements contain items that are the same as, or similar to, those items in financial statements prepared in conformity with GAAP, similar informative disclosures are provided.

**A. Reporting Entity**

The reporting entity has been defined in accordance with GASB Statement No. 14, “The Financial Reporting Entity” as amended by GASB Statement No. 39, “Determining Whether Certain Organizations Are Component Units” and GASB Statement No. 61, “The Financial Reporting Entity: Omnibus an Amendment of GASB Statements No. 14 and No. 34”. The reporting entity is composed of the primary government and component units. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the District. For the District, this includes general operations, food service, and student related activities of the District.

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

**NORTHWEST LOCAL SCHOOL DISTRICT  
STARK COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

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

The following organizations are described due to their relationship to the District:

*JOINTLY GOVERNED ORGANIZATIONS*

Stark/Portage Area Computer Consortium (SPARCC)

SPARCC is a jointly governed organization created as a regional council of governments pursuant to State Statutes made up of public school districts and county boards of education from Stark, Portage, and Carroll Counties. The primary function of SPARCC is to provide data processing services to its member districts with an emphasis being placed on accounting, inventory control and payroll services. Other areas of service provided by SPARCC include student scheduling, registration, grade reporting, and test scoring. Each member district pays an annual fee for the services provided by SPARCC.

SPARCC is governed by a Board of Directors comprised of each Superintendent within the Consortium. The Stark County Educational Service Center serves as the fiscal agent of the Consortium and receives funding from the State Department of Education. Each district has one vote in all matters and each member district's control over budgeting and financing of SPARCC is limited to its voting authority and any representation it may have on the Board of Directors. The continued existence of SPARCC is not dependent on the District's continued participation and no equity interest exists. Financial information can be obtained by writing the Stark/Portage Area Computer Consortium, 6057 Strip Avenue NW, North Canton, Ohio 44720.

Stark County Area Vocational School District (JVS)

The JVS is a distinct political subdivision of the State of Ohio operated under the direction of a seven member Board, consisting of one representative from each of the six participating districts' Boards and one Board Member that rotates from each participating district, and has its own budgeting and taxing authority. The JVS provides vocational education programs to students of the District. The financial information can be obtained by writing the Stark County Joint Vocational School, 2800 Richville Drive SE, Massillon, Ohio 44646.

*PUBLIC ENTITY RISK POOLS*

Risk Sharing Pool

The Stark County Schools Council of Governments Health Benefits Plan (the "Consortium") is a shared risk pool created pursuant to State statute for the purpose of administering health care benefits. The consortium is governed by an assembly which consists of one representative from each participating school district (usually the superintendent or designee). The assembly elects officers for one year terms to serve on the Board of Directors. The assembly exercises control over the operation of the Consortium. All Consortium revenues are generated from charges for services. Financial information can be obtained by writing to the Stark County Educational Service Center, 6057 Strip Avenue NW, North Canton, Ohio 44720.

Insurance Purchasing Pool

The Stark County Schools Council of Governments Workers' Compensation Group Rating Plan has created a group insurance pool for the purpose of creating a group rating plan for workers' compensation. The group is comprised of the treasurers of the member schools who have been appointed by the respective governing body of each member school.

**NORTHWEST LOCAL SCHOOL DISTRICT  
STARK COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

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

The intent of the pool is to achieve a reduced rate for the District by grouping with other members of the group. The injury claim histories of all participating members are used to calculate a common rate for the group. An annual fee is paid to CompManagement, Inc. to administer the group and to manage any injury claims. Premium savings created by the group are prorated to each member annually based on its payroll percent of the group.

**B. Basis of Accounting**

Although required by Ohio Administrative Code § 117-2-03(B) to prepare its annual financial report in accordance with GAAP, the District chooses to prepare its financial statements and notes on the cash basis of accounting. The cash basis of accounting is a comprehensive basis of accounting other than GAAP. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred.

Budgetary presentations report budgetary cash disbursements when a commitment is made (i.e. when an encumbrance is approved). The difference between disbursements reported in the fund and entity wide statements and disbursements reported in the budgetary statements are due to current year encumbrances being added to disbursements reported on the budgetary statements.

These statements include adequate disclosure of material matters, in accordance with the cash basis of accounting.

**C. Fund Accounting**

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

*GOVERNMENTAL FUNDS*

Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. The following is the District's major governmental fund:

General fund - The general fund is used to account for and report all financial resources not accounted for and reported 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.

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

**NORTHWEST LOCAL SCHOOL DISTRICT  
STARK COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

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

*PROPRIETARY FUNDS*

Proprietary funds are used to account for the District's ongoing activities which are similar to those often found in the private sector. The District has no proprietary funds.

*FIDUCIARY FUNDS*

Fiduciary fund reporting focuses on net cash position and changes in net cash 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 cash 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. The District's only trust fund is a private-purpose trust which accounts for donated monies restricted to provide college scholarship assistance to District graduates. Agency funds are custodial in nature and do not involve measurement of results of operations. The District's agency fund accounts for student activities.

**D. Basis of Presentation**

The government-wide Statement of Activities compares disbursements with program receipts for each function or program of the District's governmental activities. These disbursements are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program receipts include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Receipts which are not classified as program receipts are presented as general receipts of the District. The comparison of direct disbursements with program receipts identifies the extent to which each business segment or governmental function is self-financing on the cash basis or draws from the general receipts of the District.

Fund Financial Statements - Fund financial statements report detailed information about the District. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column, and all nonmajor funds are aggregated into one column. Fiduciary funds are reported by fund type.

**E. Budgets**

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the alternate tax budget, the certificate of estimated resources, and the appropriation resolution, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriations resolution are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified. All funds, other than agency funds, are legally required to be budgeted and appropriated. The legal level of budgetary control has been established at the first digit of the object for all functions for the general fund and at the fund level for all other funds. Any budgetary modifications at this level may only be made by resolution of the Board of Education. Although the legal level of budgetary control was established at the first digit of the object for all functions for the general fund, the District has elected to present the general fund's budgetary statement comparison at the fund and function level of expenditures.

**NORTHWEST LOCAL SCHOOL DISTRICT  
STARK COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

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

Tax Budget:

On October 25, 2005, the Stark County Budget Commission voted to waive the requirement that school districts adopt a tax budget as required by Section 5705.28 of the Ohio Revised Code, by January 15<sup>th</sup> and the filing by January 20<sup>th</sup>. The Budget Commission now requires an alternate tax budget be submitted by January 20<sup>th</sup>, which no longer requires specific Board approval.

Estimated Resources:

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

Appropriations:

Upon receipt from the County Auditor of an amended certificate of estimated resources based on final assessed values and tax rates or a certificate saying no new certificate is necessary, the annual appropriation resolution is enacted by the Board of Education. Prior to the passage of the annual appropriation measure, the Board may pass a temporary appropriation measure to meet the ordinary expenses of the District. The appropriation resolution, at the fund level for all funds, must be within the estimated resources as certified by the County Budget Commission and the total of expenditures may not exceed the appropriation totals at any level of control. Any revisions that alter the level of budgetary control must be approved by the Board of Education.

The Board may pass supplemental fund appropriations so long as the total appropriations by fund do not exceed the amounts set forth in the most recent certificate of estimated resources. During the year, all supplemental appropriations were legally enacted.

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

Lapsing of Appropriations:

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

**NORTHWEST LOCAL SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

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

**F. Cash and Investments**

To improve cash management, cash received by the District is pooled. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through the District's records. Each fund's interest in the pool is presented as "equity in pooled cash and cash equivalents" on the basic financial statements. The District also reports "cash in segregated accounts" which represents monies maintained separately from the District's internal cash pool.

During fiscal year 2019, investments were limited to investments in negotiable certificates of deposit, U.S. Government money market accounts and the State Treasury Asset Reserve of Ohio (STAR Ohio). Except for nonparticipating investment contracts, investments are reported at fair value, which is based on quoted market prices.

During fiscal year 2019, the District invested in STAR Ohio. STAR Ohio (the State Treasury Asset Reserve of Ohio), is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but has adopted Governmental Accounting Standards Board (GASB), Statement No. 79, "Certain External Investment Pools and Pool Participants." The District measures its investment in STAR Ohio at the net asset value (NAV) per share provided by STAR Ohio. The NAV per share is calculated on an amortized cost basis that provides an NAV per share that approximates fair value.

For fiscal year 2019, there were no limitations or restrictions on any participant withdrawals due to redemption notice periods, liquidity fees, or redemption gates. However, 24 hours advance notice is appreciated for deposits and withdrawals of \$25 million or more. STAR Ohio reserves the right to limit the transaction to \$100 million per day, requiring the excess amount to be transacted the following business day(s), but only to the \$100 million limit. All accounts of the participant will be combined for these purposes.

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund. The Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2019 amounted to \$96,259, none of which was assigned from other District funds.

For presentation on the basic financial statements, investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the District are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

An analysis of the District's investment account at fiscal year end is provided in Note 4.

**G. Capital Assets**

Acquisition of property, plant, and equipment purchased are recorded as disbursements when paid. These items are not reflected as assets on the accompanying financial statements under the cash basis of accounting. Depreciation has not been reported for any capital assets.



**NORTHWEST LOCAL SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

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

**H. Unpaid Vacation and Sick Leave**

Employees are entitled to cash payments for unused vacation and sick leave in certain circumstances, such as upon leaving employment. Unpaid vacation and sick leave are not reflected as liabilities under the cash basis of accounting.

**I. Long-Term Obligations**

Bonds and other long-term obligations are not recognized as a liability in the financial statements under the cash basis of accounting. These statements report proceeds of debt when cash is received, and debt service disbursements for debt principal payments.

**J. Fund Cash Balance**

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

*Nonspendable* - The nonspendable fund balance classification includes amounts that cannot be spent because they are not in spendable form or legally required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash.

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

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

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

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

**NORTHWEST LOCAL SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

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

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

**K. Net Cash Position**

Net cash position is reported as restricted when enabling legislation or creditors, grantors or laws or regulations of other governments have imposed limitations on its use. The District first applies restricted resources when a disbursement is incurred for purposes for which both restricted and unrestricted net cash position is available. The District did not have any assets restricted by enabling legislation at June 30, 2019.

**L. 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 basic financial statements. Interfund activities between governmental funds are eliminated in the statement of activities.

**M. Restricted Assets**

Assets are reported as restricted assets when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments or imposed by enabling legislation. See Notes 8.A. and 4.B. for further detail on restricted assets related to energy conservation note sinking fund deposits maintained by the District.

**N. Extraordinary and Special Items**

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal year 2019.

**O. Pensions/Other Postemployment Benefits (OPEB)**

For purposes of measuring the net pension/OPEB liability and net OPEB asset, 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.

**NORTHWEST LOCAL SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

**NOTE 3 - ACCOUNTABILITY AND COMPLIANCE**

**A. Change in Accounting Principles**

For fiscal year 2019, the District has implemented GASB Statement No. 83, "Certain Asset Retirement Obligations" and GASB Statement No. 88, "Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements".

GASB Statement No. 83 addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability. The implementation of GASB Statement No. 83 did not have an effect on the financial statements of the District.

GASB Statement No. 88 improves the information that is disclosed in notes to the basic financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. The implementation of GASB Statement No. 88 did not have an effect on the financial statements of the District.

**B. Compliance**

Ohio Administrative Code § 117-2-03(B) requires the District to prepare its annual financial report in accordance with generally accepted accounting principles. However, the District prepared its financial statements on a cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The accompanying financial statements omit assets, deferred outflows of resources, liabilities, deferred inflows of resources, net position/fund balances, and disclosures that, while material, cannot be determined at this time. The District can be fined and various other administrative remedies may be taken against the District.

**C. Deficit Fund Balances**

Fund balances at June 30, 2019 included the following individual fund deficits:

<u>Nonmajor funds</u>	<u>Deficit</u>
District managed student activity	\$ 41,518
Title I	69,410
Improving teacher quality	9,337
Building	170,754
Classroom facilities	22,121

The general fund is liable for any deficit in these funds and provides transfers when cash is required. These funds did not comply with State law which does not allow for a negative cash balance at year end.

**NORTHWEST LOCAL SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

**NOTE 4 - DEPOSITS AND INVESTMENTS**

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

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

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

Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use, but which will be needed before the end of the current period of designation of depositories.

Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts including passbook accounts.

Interim monies may be deposited or invested in the following securities:

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the fair value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in items (1) and (2) above and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool, the State Treasury Asset Reserve of Ohio (STAR Ohio);
7. Certain banker's acceptance and commercial paper notes for a period not to exceed one-hundred-eighty days and two-hundred-seventy days, respectively, from the purchase date in an amount not to exceed forty percent of the interim monies available for investment at any one time; and,
8. Under limited circumstances, corporate note interests rated in either of the three highest classifications by at least two nationally recognized rating agencies.

**NORTHWEST LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

**NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)**

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 pledge 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.

**A. Cash on Hand**

At fiscal year end, the District had \$500 in undeposited cash on hand which is included on the financial statements of the District as part of "equity in pooled cash and cash equivalents".

**B. Cash in Segregated Accounts**

At fiscal year end, \$910,000 was on deposit with an escrow agent for required sinking fund deposits relating to the District's energy conservation notes. These funds are not included in "deposits with financial institutions" below.

**C. Deposits with Financial Institutions**

At June 30, 2019, the carrying amount of all District deposits was \$7,155,851 and the bank balance was \$7,203,636. Of the bank balance, \$500,000 was covered by the FDIC, \$4,367,818 was covered by the Ohio Pooled Collateral System, and \$2,335,818 was exposed to custodial credit risk because this amount was uninsured and uncollateralized. Although all statutory requirements for the deposit of money had been followed, noncompliance with Federal requirements could potentially subject the District to a successful claim by the FDIC.

Custodial credit risk is the risk that, in the event of bank failure, the District's deposits may not be returned. The District has no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits either be insured or protected by: (1) eligible securities pledged to the District and deposited with a qualified trustee by the financial institution as security for repayment whose fair value at all times shall be at least 105 percent of the deposits being secured; or (2) 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 fair value of the securities pledged to be 102 percent of the deposits being secured or a rate set by the Treasurer of State. For 2019, the District's financial institution was approved for a reduced collateral rate of 50% through OPCS.

**NORTHWEST LOCAL SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

**NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)**

**D. Investments**

As of June 30, 2019, the District had the following investments and maturities:

<u>Investment type</u>	<u>Carrying Value</u>	<u>Fair Value</u>	<u>Investment maturity</u>		
			<u>12 months or less</u>	<u>13 to 24 months</u>	<u>More than 24 months</u>
Negotiable CDs	\$ 2,685,000	\$ 2,694,953	\$ 986,141	\$ 1,458,404	\$ 250,408
STAR Ohio	3,042,879	3,042,879	3,042,879	-	-
U.S. Government money market	<u>64,752</u>	<u>64,752</u>	<u>64,752</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 5,792,631</u>	<u>\$ 5,802,584</u>	<u>\$ 4,093,772</u>	<u>\$ 1,458,404</u>	<u>\$ 250,408</u>

The weighted average maturity of investments is 0.62 years.

*Interest Rate Risk:* Interest rate risk arises as potential purchasers of debt securities will not agree to pay face value for those securities if interest rates subsequently increase. As a means of limiting its exposure to fair value losses arising from rising interest rates and according to State law, the District's investment policy limits investment portfolio maturities to five years or less.

*Credit Risk:* STAR Ohio was rated AAAM by Standard & Poor's. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service.

*Concentration of Credit Risk:* The District places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the District at June 30, 2019:

<u>Investment type</u>	<u>Carrying Value</u>	<u>% to Total</u>
Negotiable CDs	\$ 2,685,000	46.35
STAR Ohio	3,042,879	52.53
U.S. Government money market	<u>64,752</u>	<u>1.12</u>
Total	<u>\$ 5,792,631</u>	<u>100.00</u>

**E. Reconciliation of Cash and Investments to the Statement of Net Position**

The following is a reconciliation of cash and investments as reported in the note above to cash and investments as reported on the statement of net position as of June 30, 2019:

<u>Cash and investments per note</u>	
Carrying amount of deposits	\$ 7,155,851
Investments	5,792,631
Cash in segregated accounts	910,000
Cash on hand	<u>500</u>
Total	<u>\$ 13,858,982</u>

**NORTHWEST LOCAL SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

**NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)**

<u>Cash and investments per statement of net position</u>	
Governmental activities	\$ 13,767,940
Private-purpose trust fund	5,355
Agency fund	<u>85,687</u>
Total	<u>\$ 13,858,982</u>

**NOTE 5 - PROPERTY TAXES**

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

Property taxes include amounts levied against all real property and public utility property. Real property tax revenues received in calendar year 2019 represent the collection of calendar year 2018 taxes. Real property taxes received in calendar year 2019 were levied after April 1, 2018, on the assessed values as of January 1, 2018, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised fair value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established. Public utility property tax revenues received in calendar year 2019 represent the collection of calendar year 2018 taxes. Public utility real and personal property taxes received in calendar year 2019 became a lien on December 31, 2017, were levied after April 1, 2018, and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

The District receives property taxes from Stark, Summit and Wayne Counties. The County Auditors/Fiscal Officer periodically advance to the District its portion of the taxes collected. Second-half real property tax payments collected by the Counties by June 30, 2019 are available to finance fiscal year 2019 operations. The amount of second-half real property taxes available for advance at fiscal year-end can vary based on the date the tax bills are sent.

The assessed values upon which the fiscal year 2019 taxes were collected are:

	2018 Second Half Collections		2019 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and other real estate	\$ 259,743,550	93.28	\$ 291,211,850	93.67
Public utility personal	<u>18,726,100</u>	<u>6.72</u>	<u>19,677,480</u>	<u>6.33</u>
Total	<u>\$ 278,469,650</u>	<u>100.00</u>	<u>\$ 310,889,330</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation	\$55.00		\$54.40	

**NORTHWEST LOCAL SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

**NOTE 6 - INCOME TAX**

Effective January 1, 2011, the District levies a voted tax of 1% for general operations on the earned income of residents and of estates. Employers of residents are required to withhold income tax on compensation and remit the tax to the State. Taxpayers are required to file an annual return. The State makes quarterly distributions to the District after withholding amounts for administrative fees and estimated refunds. Income tax receipts are credited to the general fund and totaled \$3,190,611 for fiscal year 2019.

**NOTE 7 - LEASE-PURCHASE AGREEMENTS - LESSEE DISCLOSURE**

On August 16, 2007, the District entered into a \$1,318,000 lease-purchase agreement with the Columbus Regional Airport Authority to finance the acquisition of a bus garage. On August 6, 2009, the District entered into a \$1,630,000 lease-purchase agreement with the Columbus Regional Airport Authority to finance improvements to the District's buildings. Lease payments are reflected as debt service disbursements in the financial statements for the governmental funds. Principal and interest payments in fiscal year 2019 totaled \$127,000 and \$92,836, respectively, paid by the permanent improvement fund (a non-major governmental fund).

The following is a schedule of the future long-term minimum lease payments required under the lease-purchase agreements and the present value of the minimum lease payments as of June 30, 2019.

Fiscal Year Ending <u>June 30,</u>	<u>Amount</u>
2020	\$ 219,591
2021	220,034
2022	219,164
2023	219,958
2024	219,392
2025 - 2029	993,398
2030 - 2032	<u>343,983</u>
Total	2,435,520
Less: amount representing interest	<u>(554,520)</u>
Present value of minimum lease payments	<u>\$ 1,881,000</u>



**NORTHWEST LOCAL SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

**NOTE 8 - LONG-TERM OBLIGATIONS**

- A. During the fiscal year 2019, the following changes occurred in governmental activities long-term obligations:

	Balance Outstanding <u>6/30/18</u>	<u>Additions</u>	<u>Deletions</u>	Balance Outstanding <u>6/30/19</u>	Amount Due in <u>One Year</u>
<b>Governmental activities:</b>					
<u>General obligation bonds:</u>					
Series 2010, Refunding					
Current Interest Bonds	\$ 2,610,000	\$ -	\$ (40,000)	\$ 2,570,000	\$ 45,000
Capital Appreciation Bonds	78,682	-	-	78,682	-
Accreted Interest	259,808	71,040	-	330,848	-
Series 2011, Refunding					
Current Interest Bonds	4,345,000	-	(930,000)	3,415,000	-
Capital Appreciation Bonds	83,849	-	-	83,849	83,849
Accreted Interest	526,285	212,381	-	738,666	738,666
Series 2012, Refunding					
Current Interest Bonds	5,260,000	-	(30,000)	5,230,000	30,000
Capital Appreciation Bonds	7,093	-	-	7,093	-
Accreted Interest	35,227	13,643	-	48,870	-
Total general obligation bonds	<u>13,205,944</u>	<u>297,064</u>	<u>(1,000,000)</u>	<u>12,503,008</u>	<u>897,515</u>
<u>Other obligations:</u>					
Energy conservation note	1,715,000	-	-	1,715,000	-
Lease-purchase obligations	<u>2,008,000</u>	<u>-</u>	<u>(127,000)</u>	<u>1,881,000</u>	<u>133,000</u>
Total other obligations	<u>3,723,000</u>	<u>-</u>	<u>(127,000)</u>	<u>3,596,000</u>	<u>133,000</u>
Total all governmental activities long-term liabilities	<u>\$ 16,928,944</u>	<u>\$ 297,064</u>	<u>\$ (1,127,000)</u>	<u>\$ 16,099,008</u>	<u>\$ 1,030,515</u>

The lease-purchase obligations will be paid from the permanent improvement fund. See Note 7 for more detail.

Series 2010 Refunding General Obligation Bonds

On October 6, 2010, the District issued general obligation bonds to advance refund a portion of the Series 2002 bond issue. These bonds are general obligations of the District, for which its full faith and credit is pledged. The source of payment is derived from proceeds of a 5.2 mil bonded debt tax levy.

The issuance proceeds of \$3,362,660 were used to purchase securities which were placed in an irrevocable trust to provide resources for all future debt service payments on the refunded debt. This refunded debt is considered defeased (in substance). At June 30, 2019, \$3,015,000 of this debt was outstanding.

The refunding bond issue is comprised of current interest bonds, par value \$2,935,000 and capital appreciation bonds, par value \$78,682. The capital appreciation bonds mature December 1, 2020, (stated interest 20.00%) at a redemption price equal to 100% of the principal, plus accrued interest to the redemption date. The accreted value at maturity for the capital appreciation bonds is \$545,000.

**NORTHWEST LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

**NOTE 8 - LONG-TERM OBLIGATIONS - (Continued)**

Interest payments on the current interest bonds are due on June 1 and December 1 of each year. The final maturity stated in the issue is December 1, 2022.

Series 2011 Refunding General Obligation Bonds

On October 12, 2011, the District issued general obligation bonds to advance refund a portion of the Series 2002 bond issue. These bonds are general obligations of the District, for which its full faith and credit is pledged. The source of payment is derived from proceeds of a 5.2 mil bonded debt tax levy.

The issuance proceeds of \$9,757,917 were used to purchase securities which were placed in an irrevocable trust to provide resources for all future debt service payments on the refunded debt. This refunded debt is considered defeased (in substance). At June 30, 2019, \$4,395,000 of this debt was outstanding.

This issue is comprised of current interest bonds, par value \$9,085,000 and capital appreciation bonds, par value \$83,849. The capital appreciation bonds mature December 1, 2019, (stated interest 32.25%) at a redemption price equal to 100% of the principal, plus accrued interest to the redemption date. The accreted value at maturity for the capital appreciation bonds is \$955,000.

Interest payments on the current interest bonds are due on June 1 and December 1 of each year. The final maturity stated in the issue is December 1, 2025.

Series 2012 Refunding General Obligation Bonds

On January 12, 2012, the District issued general obligation bonds to advance refund a portion of the Series 2002 bond issue. These bonds are general obligations of the District, for which its full faith and credit is pledged. The source of payment is derived from proceeds of a 5.2 mil bonded debt tax levy.

The issuance proceeds of \$5,709,668 were used to purchase securities which were placed in an irrevocable trust to provide resources for all future debt service payments on the refunded debt. This refunded debt is considered defeased (in-substance). At June 30, 2019, \$5,455,000 of this debt was outstanding.

This issue is comprised of current interest bonds, par value \$5,445,000 and capital appreciation bonds, par value \$7,093. The capital appreciation bonds mature December 1, 2026, (stated interest 30.00%) at a redemption price equal to 100% of the principal, plus accrued interest to the redemption date. The accreted value at maturity for the capital appreciation bonds is \$455,000.

Interest payments on the current interest bonds are due on June 1 and December 1 of each year. The final maturity stated in the issue is December 1, 2029.

Energy Conservation Notes

On October 6, 2010, the District issued notes for the purpose of purchasing and installing energy conservation improvements throughout the District. The notes bear an interest rate of 5.05%, with interest payable each June 1 and December 1. Payments are made from the general fund. The notes mature on December 1, 2025.

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**NOTE 8 - LONG-TERM OBLIGATIONS - (Continued)**

The District is required to make mandatory sinking fund deposits on each December 1, through 2025, in the amount of \$115,000.

Fiscal Year Ending June 30	Amount
2020	\$ 115,000
2021	115,000
2022	115,000
2023	115,000
2024	115,000
2025	115,000
2026	115,000
<b>Total</b>	<b>\$ 805,000</b>

The District receives a reimbursement from the United States Treasury equal to 100% of the lesser of the interest payments on the energy conservation notes or the federal tax credits that would have otherwise been available to the holders of the energy conservation notes. The District records this reimbursement as federal intergovernmental revenue in the general fund.

**B.** Principal and interest requirements to retire the general obligation bonds and notes outstanding at June 30, 2019 are as follows:

Fiscal Year Ending June 30	General Obligation Current Interest Bonds			General Obligation Capital Appreciation Bonds		
	Principal	Interest	Total	Principal	Interest	Total
2020	\$ 75,000	\$ 379,188	\$ 454,188	\$ 83,849	\$ 871,151	\$ 955,000
2021	485,000	371,394	856,394	78,682	466,318	545,000
2022	1,045,000	343,863	1,388,863	-	-	-
2023	1,090,000	301,406	1,391,406	-	-	-
2024	1,140,000	262,594	1,402,594	-	-	-
2025 - 2029	5,950,000	766,051	6,716,051	7,093	447,907	455,000
2030	1,430,000	25,025	1,455,025	-	-	-
<b>Total</b>	<b>\$ 11,215,000</b>	<b>\$ 2,449,521</b>	<b>\$ 13,664,521</b>	<b>\$ 169,624</b>	<b>\$ 1,785,376</b>	<b>\$ 1,955,000</b>

Fiscal Year Ending June 30	Energy Conservation Notes		
	Principal	Interest	Total
2020	\$ -	\$ 86,608	\$ 86,608
2021	-	86,608	86,608
2022	-	86,608	86,608
2023	-	86,608	86,608
2024	-	86,608	86,608
2025 - 2026	1,715,000	129,912	1,844,912
<b>Total</b>	<b>\$ 1,715,000</b>	<b>\$ 562,952</b>	<b>\$ 2,277,952</b>

**NORTHWEST LOCAL SCHOOL DISTRICT  
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**NOTE 8 - LONG-TERM OBLIGATIONS - (Continued)**

**C. Legal Debt Margin**

The Ohio Revised Code provides that voted net general obligation debt of the District shall never exceed 9% of the total assessed valuation of the District. The code further provides that unvoted indebtedness shall not exceed 1/10 of 1% of the property valuation of the District. The code additionally states that unvoted indebtedness related to energy conservation debt shall not exceed 9/10 of 1% of the property valuation of the District. The assessed valuation used in determining the District's legal debt margin has been modified by House Bill 530 which became effective March 30, 2006. In accordance with House Bill 530, the assessed valuation used in the District's legal debt margin calculation excluded tangible personal property used in business, telephone or telegraph property, interexchange telecommunications company property, and personal property owned or leased by a railroad company and used in railroad operations. The effects of these debt limitations at June 30, 2019, are a voted debt margin of \$17,153,735 (including available funds of \$558,319) and an unvoted debt margin of \$310,889.

**NOTE 9 - OTHER EMPLOYEE BENEFITS**

**A. Compensated Absences**

The criteria for determining vacation and sick leave components are derived from negotiated agreements and State laws. Administrative and 260 day employees earn ten to thirty days of vacation per fiscal year, depending upon length of service. Accumulated, unused vacation time is paid to classified employees and administrators upon termination of employment. Teachers do not earn vacation time. Teachers, administrators, and classified employees earn sick leave at the rate of one and one-fourth days per month. Upon retirement, classified employees are entitled to one-third of unused sick leave for the first 120 days of unused sick leave and one-tenth of unused sick leave in excess of 120 days. Upon retirement, certified employees are entitled to one-third of unused sick leave for the first 120 days of unused sick leave and one-tenth of unused sick leave in excess of 120 days, up to a maximum of 60 days.

**B. Insurance Benefits**

The District provides life insurance and accidental death and dismemberment insurance to most employees through Stark County Schools Council of Governments Health Benefits Program. Coverage in the amount of \$50,000 is provided for classified employees and \$70,000 for certified and non-represented employees.

**NOTE 10 - RISK MANAGEMENT**

**A. Property**

The District is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions; injuries to employees and natural disasters. During fiscal year 2019, the District maintained comprehensive insurance coverage with private carriers for real property, building contents and vehicles. Vehicle policies include liability coverage for bodily injury and property damage. Real property and contents are 90% coinsured.

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

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

**B. Employee Health Benefits**

The District has contracted with Stark County Schools Council of Governments (a shared risk pool) (see Note 2) to provide employee medical/surgical benefits. Rates are set through an annual calculation process. The District pays a monthly contribution which is placed in a common fund from which claim payments are made for all participating districts. The District's Board of Education pays 87% of the cost of a monthly premium for certified and classified employees. For fiscal year 2019, the District's monthly premium for family coverage and single coverage was \$1,826 and \$751, respectively, for medical and \$235 and \$95, respectively, for dental.

Claims are paid for all participants regardless of claims flow. Upon termination, all District claims would be paid without regard to the District's account balance. The Directors have the right to hold monies for an exiting district subsequent to the settlement of all expenses and claims.

**C. Workers' Compensation**

The District participates in the Stark County Schools Council of Governments Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (see Note 2). The intent of the GRP is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating districts is calculated as one experience and a common premium rate is applied to all districts in the GRP.

Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performances is compared to the overall savings percent of the GRP. A participant will then either receive money from or be required to contribute to the "equity pooling fund". This "equity pooling fund" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to districts that can meet the GRP's selection criteria. The firm of CompManagement, Inc. provides administrative, cost control and actuarial services to the GRP.

**NOTE 11 - DEFINED BENEFIT PENSION PLANS**

***Net Pension Liability***

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

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

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

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

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

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

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

Age and service requirements for retirement are as follows:

	Eligible to Retire on or before August 1, 2017 *	Eligible to Retire after August 1, 2017
Full benefits	Any age with 30 years of service credit	Age 67 with 10 years of service credit; or Age 57 with 30 years of service credit
Actuarially reduced benefits	Age 60 with 5 years of service credit; or 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 years of service; 2.2% for the first thirty years of service and 2.5% for years of service credit over 30. Final average salary is the average of the highest three years of salary.

Effective January 1, 2018, SERS cost-of-living adjustment (COLA) changed from a fixed 3% annual increase to one based on the Consumer Price Index (CPI-W) with a cap of 2.5% and a floor of 0%. SERS also has the authority to award or suspend the COLA, or to adjust the COLA above or below CPI-W. SERS suspended the COLA increases for 2018, 2019 and 2020 for current retirees, and confirmed their intent to implement a four-year waiting period for the state of a COLA for future retirees.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**NOTE 11 - DEFINED BENEFIT PENSION PLANS - (Continued)**

Funding Policy - Plan members are required to contribute 10% of their annual covered salary and the District 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, 2019, the allocation to pension, death benefits, and Medicare B was 13.5%. The remaining 0.5% of the employer contribution rate was allocated to the Health Care Fund.

The District's contractually required contribution to SERS was \$337,212 for fiscal year 2019.

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

Plan Description - Licensed teachers 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 website at [www.strsoh.org](http://www.strsoh.org).

New members have a choice of three retirement plans; a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. Benefits are established by Ohio Revised Code Chapter 3307. The DB Plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service. Effective August 1, 2015, the calculation will be 2.2% 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 age 55 with 27 years of service, or 30 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 9.53% of the 14% employer contributions into an investment account. Investment allocation decisions are determined by the member. The remaining 4.47% 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.

**NORTHWEST LOCAL SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**NOTE 11 - DEFINED BENEFIT PENSION PLANS - (Continued)**

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

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

Funding Policy - Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. For fiscal year 2019, plan members were required to contribute 14% of their annual covered salary. The District was required to contribute 14%; the entire 14% was the portion used to fund pension obligations. The fiscal year 2019 contribution rates were equal to the statutory maximum rates.

The District's contractually required contribution to STRS was \$1,066,917 for fiscal year 2019.

***Net Pension Liability***

The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's share of contributions to the pension plan relative to the projected contributions of all participating entities.

Following is information related to the proportionate share:

	SERS	STRS	Total
Proportion of the net pension liability prior measurement date	0.07541530%	0.07442414%	
Proportion of the net pension liability current measurement date	<u>0.07382170%</u>	<u>0.07407571%</u>	
Change in proportionate share	<u>-0.00159360%</u>	<u>-0.00034843%</u>	
Proportionate share of the net pension liability	\$ 4,227,905	\$ 16,287,585	\$ 20,515,490



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NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**NOTE 11 - DEFINED BENEFIT PENSION PLANS - (Continued)**

***Actuarial Assumptions - SERS***

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

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

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

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of June 30, 2018, are presented below:

Wage inflation	3.00%
Future salary increases, including inflation	3.50% to 18.20%
COLA or ad hoc COLA	2.50%, on and after April 1, 2018, COLA's for future retirees will be delayed for three years following commencement
Investment rate of return	7.50% net of investments expense, including inflation
Actuarial cost method	Entry age normal (level percent of payroll)

For 2018, 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. Mortality among disabled members was 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 most recent experience study was completed for the five year period ended June 30, 2015.

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

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

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

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

**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 District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate** - Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net pension liability calculated using the discount rate of 7.50%, 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.

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
District's proportionate share of the net pension liability	\$ 5,955,324	\$ 4,227,905	\$ 2,779,581

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

***Actuarial Assumptions - STRS***

Key methods and assumptions used in the latest actuarial valuation, reflecting experience study results used in the July 1, 2018, actuarial valuation are presented below:

	July 1, 2018
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)	0.0%, effective July 1, 2017

For the July 1, 2018, 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.

Actuarial assumptions used in the July 1 2018, valuation are based on the results of an actuarial experience study for the period July 1, 2011 through June 30, 2016.

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 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.

\*\*The Target Allocation percentage is effective as of July 1, 2017. Target weights will be phased in over a 24-month period concluding on July 1, 2019.

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NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**NOTE 11 - DEFINED BENEFIT PENSION PLANS - (Continued)**

**Discount Rate** - The discount rate used to measure the total pension liability was 7.45% as of June 30, 2018. The projection of cash flows used to determine the discount rate assumes member and employer contributions will be made at the statutory contribution rates in accordance with rate increases described above. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, STRS' fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 2018. Therefore, the long-term expected rate of return on pension plan investments of 7.45% was applied to all periods of projected benefit payment to determine the total pension liability as of June 30, 2018.

**Sensitivity of the District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate** - The following table presents the District's proportionate share of the net pension liability calculated using the current period discount rate assumption of 7.45%, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.45%) or one-percentage-point higher (8.45%) than the current rate:

	1% Decrease (6.45%)	Current Discount Rate (7.45%)	1% Increase (8.45%)
District's proportionate share of the net pension liability	\$ 23,785,874	\$ 16,287,585	\$ 9,941,301

**NOTE 12 - DEFINED BENEFIT OPEB PLANS**

**Net OPEB Liability/Asset**

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 net OPEB liability/asset 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/asset 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.

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

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NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**NOTE 12 - DEFINED BENEFIT OPEB PLANS - (Continued)**

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/asset. Resulting adjustments to the net OPEB liability/asset 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.

***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](http://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% of covered payroll to the Health Care Fund in accordance with the funding policy. For fiscal year 2019, 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 2019, this amount was \$21,600. Statutes provide that no employer shall pay a health care surcharge greater than 2% 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 2019, the District's surcharge obligation was \$39,773.

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 \$52,262 for fiscal year 2019.

**NORTHWEST LOCAL SCHOOL DISTRICT  
STARK COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

**NOTE 12 - DEFINED BENEFIT OPEB PLANS - (Continued)**

***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](http://www.strsoh.org) or by calling (888) 227-7877.

Funding Policy – Ohio Revised Code Chapter 3307 authorizes STRS to offer the Plan and gives the Retirement Board 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% of covered payroll. For the fiscal year ended June 30, 2019, STRS did not allocate any employer contributions to post-employment health care.

***Net OPEB Liability/Asset***

The net OPEB liability/asset was measured as of June 30, 2018, and the total OPEB liability/asset used to calculate the net OPEB liability/asset was determined by an actuarial valuation as of that date. The District's proportion of the net OPEB liability/asset was based on the District'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>
Proportion of the net OPEB liability prior measurement date	0.07639830%	0.07442414%	
Proportion of the net OPEB liability/asset current measurement date	<u>0.07475430%</u>	<u>0.07407571%</u>	
Change in proportionate share	<u>-0.00164400%</u>	<u>-0.00034843%</u>	
Proportionate share of the net OPEB liability	\$ 2,073,886	\$ -	\$ 2,073,886
Proportionate share of the net OPEB asset	\$ -	\$ 1,190,321	\$ 1,190,321

***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.

**NORTHWEST LOCAL SCHOOL DISTRICT  
STARK COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

**NOTE 12 - DEFINED BENEFIT OPEB PLANS - (Continued)**

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 OPEB liability in the latest actuarial valuation date of June 30, 2018, 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	3.62%
Prior measurement date	3.56%
Single equivalent interest rate, net of plan investment expense, including price inflation:	
Measurement date	3.70%
Prior measurement date	3.63%
Medical trend assumption:	
Medicare	5.375 to 4.75%
Pre-Medicare	7.25 to 4.75%

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

**NORTHWEST LOCAL SCHOOL DISTRICT  
STARK COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

**NOTE 12 - DEFINED BENEFIT OPEB PLANS - (Continued)**

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:

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	<u>100.00 %</u>	

**Discount Rate** - The discount rate used to measure the total OPEB liability at June 30, 2018 was 3.70%. The discount rate used to measure total OPEB liability prior to June 30, 2018 was 3.63%. 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% of projected covered employee payroll each year, which includes a 1.50% payroll surcharge and 0.50% 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, 2026. 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, 2025 and the Fidelity General Obligation 20-year Municipal Bond Index rate of 3.62%, as of June 30, 2018 (i.e. municipal bond rate), was used to present value the projected benefit payments for the remaining years in the projection. A municipal bond rate of 3.56% was used as of June 30, 2017. 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 District's 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 (2.70%) and higher (4.70%) than the current discount rate (3.70%). Also shown is what SERS' net OPEB liability would be based on health care cost trend rates that are 1 percentage point lower (6.25% decreasing to 3.75%) and higher (8.25% decreasing to 5.75%) than the current rate.

	1% Decrease (2.70%)	Current Discount Rate (3.70%)	1% Increase (4.70%)
District's proportionate share of the net OPEB liability	\$ 2,516,498	\$ 2,073,886	\$ 1,723,421



**NORTHWEST LOCAL SCHOOL DISTRICT  
STARK COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

**NOTE 12 - DEFINED BENEFIT OPEB PLANS - (Continued)**

	1% Decrease (6.25 % decreasing to 3.75 %)	Current Trend Rate (7.25 % decreasing to 4.75 %)	1% Increase (8.25 % decreasing to 5.75 %)
District's proportionate share of the net OPEB liability	\$ 1,673,246	\$ 2,073,886	\$ 2,604,406

***Actuarial Assumptions - STRS***

Key methods and assumptions used in the latest actuarial valuation, reflecting experience study results used in the July 1, 2018, actuarial valuation, compared with July 1, 2017, are presented below:

	July 1, 2018	July 1, 2017
Inflation	2.50%	2.50%
Projected salary increases	12.50% at age 20 to 2.50% at age 65	12.50% at age 20 to 2.50% at age 65
Investment rate of return	7.45%, net of investment expenses, including inflation	7.45%, net of investment expenses, including inflation
Payroll increases	3.00%	3.00%
Cost-of-living adjustments (COLA)	0.00%	0.00%, effective July 1, 2017
Discounted rate of return	7.45%	N/A
Blended discount rate of return	N/A	4.13%
Health care cost trends		6 to 11% initial, 4.50% ultimate
	Initial	Ultimate
Medical		
Pre-Medicare	6.00%	4.00%
Medicare	5.00%	4.00%
Prescription Drug		
Pre-Medicare	8.00%	4.00%
Medicare	-5.23%	4.00%

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% 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. For disabled retirees, 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.

Actuarial assumptions used in the June 30, 2018, valuation are based on the results of an actuarial experience study for the period July 1, 2011 through June 30, 2016.

**NORTHWEST LOCAL SCHOOL DISTRICT  
STARK COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

**NOTE 12 - DEFINED BENEFIT OPEB PLANS - (Continued)**

**Assumption Changes Since the Prior Measurement Date** - The discount rate was increased from the blended rate of 4.13% to the long-term expected rate of return of 7.45% based on the methodology defined under GASB Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans (OPEB). Valuation year per capita health care costs were updated.

**Benefit Term Changes Since the Prior Measurement Date** - The subsidy multiplier for non-Medicare benefit recipients was increased from 1.90% to 1.944% per year of service effective January 1, 2019. The non-Medicare frozen subsidy base premium was increased effective January 1, 2019 and all remaining Medicare Part B premium reimbursements will be discontinued beginning January 1, 2020. However, in June 2019, the STRS Board voted to extend the current Medicare Part B partial reimbursement for one year.

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 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	<u>100.00 %</u>	

\*10-Year 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.

\*\* The Target Allocation percentage is effective as of July 1, 2017. Target weights will be phased in over a 24-month period concluding on July 1, 2019.

**Discount Rate** - The discount rate used to measure the total OPEB asset was 7.45% as of June 30, 2018. A discount rate used to measure the total OPEB liability was 4.13% 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 projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term expected rate of return on health care plan investments of 7.45% was used to measure the total OPEB asset as of June 30, 2018.

**NORTHWEST LOCAL SCHOOL DISTRICT  
STARK COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

**NOTE 12 - DEFINED BENEFIT OPEB PLANS - (Continued)**

*Sensitivity of the District's Proportionate Share of the Net OPEB Asset to Changes in the Discount and Health Care Cost Trend Rate* - The following table represents the net OPEB asset as of June 30, 2018, calculated using the current period discount rate assumption of 7.45%, as well as what the net OPEB asset 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. Also shown is the net OPEB asset 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 (6.45%)	Current Discount Rate (7.45%)	1% Increase (8.45%)
District's proportionate share of the net OPEB asset	\$ 1,020,217	\$ 1,190,321	\$ 1,333,286
	1% Decrease	Current Trend Rate	1% Increase
District's proportionate share of the net OPEB asset	\$ 1,325,215	\$ 1,190,321	\$ 1,053,325

**NOTE 13 - BUDGETARY BASIS OF ACCOUNTING**

While the District is reporting financial position, results of operations, and changes in fund balance on the cash basis, the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The statement of receipts, disbursements and change in fund balance - budget and actual - budgetary basis presented for the general fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budgetary basis and the cash basis are that:

- (a) In order to determine compliance with Ohio law, and to reserve that portion of the applicable appropriation, total outstanding encumbrances (budget basis) are recorded as the equivalent of a disbursement, as opposed to assigned or committed fund balance (cash basis);
- (b) Some funds are included in the general fund (cash basis), but have separate legally adopted budgets (budget basis); and,
- (c) Required sinking fund deposits of the principal on the District's energy conservation notes are recorded as disbursements (budget basis), as opposed to restricted cash in segregated accounts (cash basis).

**NORTHWEST LOCAL SCHOOL DISTRICT  
STARK COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

**NOTE 13 - BUDGETARY BASIS OF ACCOUNTING - (Continued)**

The adjustments necessary to reconcile the budget basis statement to the cash basis statement are as follows:

	<u>General fund</u>
Budget basis	\$ 1,914,208
Net adjustment for disbursements	115,070
Net adjustment for other sources/uses	(70)
Funds budgeted elsewhere	(2,168)
Adjustment for encumbrances	462,783
Cash basis	<u>\$ 2,489,823</u>

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

**NOTE 14 - CONTINGENCIES**

**A. Grants**

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

**B. Litigation**

The District is party to other legal proceedings seeking damages generally incidental to its operations. The District management is of the opinion that disposition of the claim and legal proceedings will not have a material effect, if any, on the financial condition of the District.

**C. Foundation Funding**

District Foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. The Ohio Department of Education (ODE) is legislatively required to adjust/reconcile funding as enrollment information is updated by schools throughout the State, which can extend past the fiscal year end. As of the date of this report, additional ODE adjustments for fiscal year 2019 are not finalized. As a result, the impact of future FTE adjustments on the fiscal year 2019 financial statements is not determinable at this time. Management believes this may result in either an additional receipt to, or an expense of, the District.

**NORTHWEST LOCAL SCHOOL DISTRICT  
STARK COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

**NOTE 15 - SET-ASIDES**

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

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

	<u>Capital Improvements</u>
Set-aside balance June 30, 2018	\$ -
Current year set-aside requirement	339,164
Current year offsets	<u>(394,338)</u>
Total	<u>\$ (55,174)</u>
Set-aside balance June 30, 2019	<u><u>\$ -</u></u>

Current year offsets include proceeds from the District's permanent improvement and classroom facilities maintenance property tax levies.

During fiscal year 2003, the District issued \$22,999,986 in capital related school improvement bonds. These proceeds may be used to offset the required capital improvements set-aside amount for future years. The District is responsible for tracking the amount of bond proceeds that may be used as an offset in future periods, which was \$22,687,348 at June 30, 2019.

**NOTE 16 - 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>Year-End Encumbrances</u>
<u>Fund</u>	
General	\$ 463,930
Nonmajor governmental	<u>24,909</u>
Total	<u><u>\$ 488,839</u></u>

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**NORTHWEST LOCAL SCHOOL DISTRICT  
STARK COUNTY**

**SCHEDULE OF RECEIPTS AND EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2019**

<b>FEDERAL GRANTOR Pass Through Grantor Program / Cluster Title</b>	<b>Federal CFDA Number</b>	<b>Pass Through Entity Identifying Number</b>	<b>Receipts</b>	<b>Non-Cash Receipts</b>	<b>Expenditures</b>	<b>Non-Cash Expenditures</b>
<b><u>U.S. DEPARTMENT OF AGRICULTURE</u></b>						
<b><i>Passed Through the Ohio Department of Education:</i></b>						
Child Nutrition Cluster:						
School Breakfast Program	10.553	49908-3L70-2019	\$ 34,299		\$ 34,299	\$ -
National School Lunch Program	10.555	49008-3L60-2019	241,044	41,330	241,044	41,330
<b>Total U.S. Department of Agriculture</b>			<b>275,343</b>	<b>41,330</b>	<b>275,343</b>	<b>41,330</b>
<b><u>U.S. DEPARTMENT OF EDUCATION</u></b>						
<b><i>Passed Through the Ohio Department of Education:</i></b>						
Special Education Cluster:						
Special Education - Grants to States	84.027	49908-3M20-2018	127,209	-	44,372	-
Special Education - Grants to States	84.027	49908-3M20-2019	359,851	-	372,084	-
Total Special Education Cluster			487,060	-	416,456	-
Title I Grants to Local Educational Agencies	84.010	49908-3M00-2018	84,767	-	40,036	-
Title I Grants to Local Educational Agencies	84.010	49908-3M00-2019	218,584	-	271,861	-
Total Title I Grants to Local Educational Agencies			303,351	-	311,897	-
Improving Teacher Quality State Grants	84.367	49908-3Y60-2018	2,757	-	8,647	-
Improving Teacher Quality State Grants	84.367	49908-3Y60-2019	35,727	-	42,583	-
Total Improving Teacher Quality			38,484	-	51,230	-
Student Support and Academic Enrichment Program, Title IV-A	84.424	49908-3H10-2018	10,000	-	4,500	-
Total Student Support and Academic Enrichment Program, Title IV-A			10,000	-	4,500	-
<b>Total U.S. Department of Education</b>			<b>838,895</b>	<b>-</b>	<b>784,083</b>	<b>-</b>
<b><u>U.S. DEPARTMENT OF TRANSPORTATION</u></b>						
<b><i>Passed Through the Ohio Department of Transportation:</i></b>						
Highway Planning and Construction Cluster:	20.205					
Ohio Diesel Emission Reduction Grant Program		PID 104914	232,999	-	232,999	-
<b>Total U.S. Department of Transportation</b>			<b>232,999</b>	<b>-</b>	<b>232,999</b>	<b>-</b>
<b>Total Federal Financial Assistance</b>			<b>\$ 1,347,237</b>	<b>\$ 41,330</b>	<b>\$ 1,292,425</b>	<b>\$ 41,330</b>

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

**NORTHWEST LOCAL SCHOOL DISTRICT  
STARK COUNTY**

**NOTES TO THE SCHEDULE OF RECEIPTS AND EXPENDITURES OF FEDERAL AWARDS  
2 CFR 200.510(b)(6)  
FOR THE YEAR ENDED JUNE 30, 2019**

**NOTE A – BASIS OF PRESENTATION**

The accompanying Schedule of Receipts and Expenditures of Federal Awards (the Schedule) includes the federal award activity of Northwest Local School District (the District) under programs of the federal government for the year ended June 30, 2019. The information on this Schedule is prepared in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial position, changes in net position, or cash flows of the District.

**NOTE 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 Uniform Guidance 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 entitlement value. The District allocated donated food commodities to the respective program that benefitted from the use of those donated food commodities.

**NOTE F - MATCHING REQUIREMENTS**

Certain Federal programs require the District to contribute non-Federal funds (matching funds) to support the Federally-funded programs. The District has met its matching requirements. The Schedule does not include the expenditure of non-Federal matching funds.

**NOTE G - TRANSFERS BETWEEN PROGRAM YEARS**

Federal regulations require schools to obligate certain federal awards by June 30. However, with ODE's consent, schools can transfer unobligated amounts to the subsequent fiscal year's program. The District transferred the following amounts from 2019 to 2020 programs:

<u>Program Title</u>	<u>CFDA Number</u>	<u>Amt. Transferred</u>
Title II-A Supporting Effective Instruction	84.367	\$ 2,482
Title IV-A Student Support & Academic Enrich	84.424	\$ 8,771
Special Education - Grants to States	84.027	\$ 37,314



# OHIO AUDITOR OF STATE KEITH FABER



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

Northwest Local School District  
Stark County  
2309 Locust Street South  
Canal Fulton, Ohio 44614

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, the major fund, and the aggregate remaining fund information of the Northwest Local School District, Stark County, (the District) as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated December 12, 2019, wherein we noted the District uses a special purpose framework other than generally accepted accounting principles.

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

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

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

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 a 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. We consider finding 2019-001 described in the accompanying schedule of findings and questioned costs to be a material weakness.

A *significant deficiency* is a deficiency, or a combination of internal control deficiencies less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider finding 2019-004 described in the accompanying schedule of findings and questioned costs to be a significant deficiency.

***Compliance and Other Matters***

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings and questioned costs as items 2019-001 through 2019-003.

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

The District's responses to the finding identified in our audit are described in the accompanying schedule of findings and questioned costs and / or corrective action plan. We did not subject the District's responses to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

***Purpose of this Report***

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



Keith Faber  
Auditor of State

Columbus, Ohio

December 12, 2019

# OHIO AUDITOR OF STATE KEITH FABER



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700 Chase Tower  
Canton, Ohio 44702-1509  
(330) 438-0617 or (800) 443-9272  
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## INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

Northwest Local School District  
Stark County  
2309 Locust Street South  
Canal Fulton, Ohio 44614

To the Board of Education:

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

We have audited Northwest Local School District's (the District) compliance with the applicable requirements described in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could directly and materially affect each of Northwest Local School District's major federal programs for the year ended June 30, 2019. The *Summary of Auditor's Results* in the accompanying schedule of findings and questioned costs identifies the District's major federal programs.

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

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

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

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

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

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

In our opinion, Northwest Local School District complied, in all material respects with the compliance requirements referred to above that could directly and materially affect each of its major federal programs for the year ended June 30, 2019.

### ***Other Matters***

The results of our auditing procedures disclosed instances of noncompliance which Uniform Guidance requires us to report, described in the accompanying schedule of findings and questioned costs as items 2019-005 and 2019-006. Our opinion on *each* major federal program is not modified with respect to these matters.

The District's responses to our noncompliance findings are described in the accompanying schedule of findings and questioned costs and corrective action plan. We did not subject the District's responses to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on them.

### ***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's compliance requirement will not be prevented, or timely detected or corrected. A *significant deficiency in internal control over compliance* is a deficiency or a combination of deficiencies in internal control over compliance with a 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 was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. Therefore, we cannot assure we have identified all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. However, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses, described in the accompanying schedule of findings and questioned costs as items 2019-005 and 2019-006.

The District's responses to our internal control over compliance findings are described in the accompanying schedule of findings and questioned costs and / or corrective action plan. We did not subject the District's responses to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on them.

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

A handwritten signature in black ink that reads "Keith Faber". The signature is written in a cursive, flowing style.

Keith Faber  
Auditor of State

Columbus, Ohio

December 12, 2019

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**NORTHWEST LOCAL SCHOOL DISTRICT  
STARK COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
2 CFR § 200.515  
JUNE 30, 2019**

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

<b>(d)(1)(i)</b>	<b>Type of Financial Statement Opinion</b>	Unmodified
<b>(d)(1)(ii)</b>	<b>Were there any material weaknesses in internal control reported at the financial statement level (GAGAS)?</b>	Yes
<b>(d)(1)(ii)</b>	<b>Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?</b>	Yes
<b>(d)(1)(iii)</b>	<b>Was there any reported material noncompliance at the financial statement level (GAGAS)?</b>	Yes
<b>(d)(1)(iv)</b>	<b>Were there any material weaknesses in internal control reported for major federal programs?</b>	Yes
<b>(d)(1)(iv)</b>	<b>Were there any significant deficiencies in internal control reported for major federal programs?</b>	No
<b>(d)(1)(v)</b>	<b>Type of Major Programs' Compliance Opinion</b>	Unmodified
<b>(d)(1)(vi)</b>	<b>Are there any reportable findings under 2 CFR § 200.516(a)?</b>	Yes
<b>(d)(1)(vii)</b>	<b>Major Programs (list):</b>	Child Nutrition Cluster – CFDA # 10.553 and 10.555 and Special Education Cluster – CFDA # 84.027
<b>(d)(1)(viii)</b>	<b>Dollar Threshold: Type A/B Programs</b>	Type A: > \$ 750,000 Type B: all others
<b>(d)(1)(ix)</b>	<b>Low Risk Auditee under 2 CFR § 200.520?</b>	No

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

**FINDING NUMBER 2019-001**

NONCOMPLIANCE AND MATERIAL WEAKNESS

**Use of Revenues**

**Ohio Rev. Code § 5705.10(D)** provides in part that all revenue derived from a source other than the general property tax and which the law prescribes shall be used for a particular purpose, shall be paid into a special fund for such purpose

The District improperly posted all of the August 2018 Stark County Real Estate Advances for the Bond Retirement and Permanent Improvement Levies to the General Fund. As a result, the General Fund was overstated \$421,730, the Bond Retirement Fund (Nonmajor Governmental Funds) was understated \$327,320, and the Permanent Improvement Fund (Nonmajor Governmental Funds) was understated by \$94,410. The financial statements and accounting system were subsequently adjusted to reflect the proper amounts.

The lack of controls over the posting of financial transactions decreases the reliability of financial data at year-end and can result in undetected errors and irregularities. The District should implement controls to help ensure all transactions are reviewed to help ensure posting to the proper funds.

The District should have controls in place to help ensure the District posts property tax receipts to the fund for the purpose for which the levy was made.

**Official's Response:** See Corrective Action Plan

**FINDING NUMBER 2019-002**

NONCOMPLIANCE

**Financial Statement Reporting**

**Ohio Rev. Code § 117.38** provides that each public office shall file a financial report for each fiscal year. The Auditor of State may prescribe forms by rule or may issue guidelines, or both, for such reports. If the Auditor of State has not prescribed a rule regarding the form for the report, the public office shall submit its report on the form utilized by the public office.

**Ohio Admin. Code § 117-2-03(B)**, which further clarifies the requirements of Ohio Rev. Code § 117.38, requires the District to prepare its annual financial report in accordance with generally accepted accounting principles (GAAP).

The District prepared financial statements that, although formatted similar to financial statements prescribed by Governmental Accounting Standards Board Statement No. 34, report on the basis of cash receipts and cash disbursements, rather than GAAP. The accompanying financial statements and notes omit certain assets, liabilities, deferred inflows/outflows of resources, fund equities/net position, and disclosures that, while presumed material, cannot be determined at this time.



**FINDING NUMBER 2019-002  
(Continued)**

Pursuant to Ohio Rev. Code § 117.38, the District may be fined and subject to various other administrative remedies for its failure to file the required financial report. Failure to report on a GAAP basis compromises the District's ability to evaluate and monitor the overall financial condition of the District. To help provide the users with more meaningful financial statements, the District should prepare its annual financial statements according to generally accepted accounting principles.

**Official's Response: See Corrective Action Plan**

**FINDING NUMBER 2019-003**

NONCOMPLIANCE

**Negative Fund Cash Balances**

**Ohio Rev. Code § 5705.10(I)** requires that money paid into any fund shall be used only for the purposes for which such fund is established. Therefore, a negative fund cash balance in any fund indicates that money from another fund or funds has been used to pay the obligations of the fund carrying the deficit balance. However, Ohio Rev. Code § 3315.20 provides an allowable exception for school districts. A school district may have a deficit in any special fund of the school district, but only if all of the following conditions are satisfied:

- The school district has a request for payment pending with the state sufficient to cover the amount of the deficit [R.C. § 3315.20(A)]
- There is a reasonable likelihood that the payment will be made [R.C. § 3315.20(A)]
- The unspent and unencumbered balance in the school district's general fund is greater than the aggregate of deficit amounts in all of the school district's special funds. [R.C. § 3315.20(B)]

The following funds had deficit fund balances, in which the above conditions were not satisfied, within the respective month/year. Negative fund balances could result in the use of restricted receipts for unallowable purposes. A procedure(s) and control(s), such as the Management and/or Board's periodic review of reports that show cash fund balances, and budgeted versus actual receipts and disbursements, should be implemented to identify those funds that may potentially develop a negative balance.

October 2018:

Capital Projects Building Fund - (\$170,754)  
Special Revenue Other Grants Fund - (\$3,221)  
Special Revenue District Managed Student Activity Fund - (\$28,902)  
Special Revenue IDEA Part B, Special Education Fund - (\$76,327)  
Special Revenue Title I Fund - (\$145,822)  
Special Revenue Improving Teacher Quality Fund - (\$14,360)  
Special Revenue Title IV Fund - (\$7,333)

March 2019:

Capital Projects Building Fund - (\$170,754)  
Special Revenue Classroom Facilities Fund - (\$5,103)  
Special Revenue Other Grants Fund - (\$3,221)  
Special Revenue District Managed Student Activity Fund - (\$26,354)  
Special Revenue IDEA Part B, Special Education Fund - (\$173,876)  
Special Revenue Title I Fund, 572 - (\$172,524)  
Special Revenue Improving Teacher Quality Fund - (\$29,238)

**FINDING NUMBER 2019-003  
(Continued)**

June 2019:

- Capital Projects Building Fund - (\$170,754)
- Special Revenue Classroom Facilities Fund - (\$22,121)
- Special Revenue District Managed Student Activity Fund - (\$41,518)
- Special Revenue Title I Fund - (\$69,410)
- Special Revenue Improving Teacher Quality Fund - (\$9,337)

Advances or transfers should be made for these funds or appropriations modified to prevent a negative cash balance. The District should refer to Ohio Compliance Supplement (OCS) Chapter 1 and/or Auditor of State Bulletin 97-003 for information regarding the accounting treatment and approval process for advances.

**Official's Response: See Corrective Action Plan**

**FINDING NUMBER 2019-004**

SIGNIFICANT DEFICIENCY

**Financial Statement Preparation Internal Controls - Fund Cash Balance**

In our audit engagement letter, as required by AU-C Section 210, *Terms of Engagement*, paragraph .06, management acknowledged its responsibility for the preparation and fair presentation of their financial statements; this responsibility includes designing, implementing and maintaining internal control relevant to preparing and fairly presenting financial statements free from material misstatement, whether due to fraud or error as discussed in AU-C Section 210 paragraphs .A14 & .A16.

**Fund Balance Classification**

The General Fund Assigned Fund Balance did not properly report the subsequent year's appropriations at fiscal year-end. Since the fiscal year 2020 appropriations (\$21,363,460) exceeded the fiscal year 2020 estimated revenues (\$18,385,793) by \$2,977,667, the Assigned Fund Balance should have been increased and the Unassigned Fund Balance should have been decreased by \$2,977,667 in accordance with the provisions of GASB 54 ¶ 16.

The financial statements were subsequently adjusted to reflect the proper amounts.

The District should establish procedures for the preparation and fair presentation of its financial statements. This may help ensure the District is meeting its professional responsibilities in accordance with applicable accounting guidance and allow for more accurate analysis by the financial statement users. Refer to Auditor of State Bulletin 2011-004 for further discussion on appropriation measure adopted for the subsequent year.

**Official's Response: See Corrective Action Plan**

**3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS**

<b>Finding Number:</b>	2019-005
<b>CFDA Number and Title:</b>	Child Nutrition Cluster #10.553 and #10.555 and Special Education Cluster #84.027
<b>Federal Award Identification Number / Year:</b>	2018 and 2019
<b>Federal Agency:</b>	U.S. Department of Agriculture and U.S. Department of Education
<b>Compliance Requirement:</b>	Reporting
<b>Pass-Through Entity:</b>	Ohio Department of Education
<b>Repeat Finding from Prior Audit?</b>	No
<b>Prior Audit Finding Number:</b>	

QUESTIONED COST, NONCOMPLIANCE AND MATERIAL WEAKNESS

**Allowability of Compensation Costs**

**2 CFR § 400.1 and 2 CFR § 3474.1** give regulatory effect to the U.S. Department of Agriculture and Department of Education for **§ 200.430**, which provides, in part, compensation for personal services includes all remuneration, paid currently or accrued, for services of employees rendered during the period of performance under the Federal award, including but not necessarily limited to wages and salaries. Costs of compensation are allowable to the extent that they satisfy the specific requirements of this part, and that the total compensation for individual employees:

- (1) Is reasonable for the services rendered and conforms to the established written policy of the non-Federal entity consistently applied to both Federal and non-Federal activities;
- (2) Follows an appointment made in accordance with a non-Federal entity's laws and/or rules or written policies and meets the requirements of Federal statute, where applicable; and
- (3) Is determined and supported as provided in paragraph (i) of this section, Standards for Documentation of Personnel Expenses, when applicable.

For fiscal year 2019, three of the twenty-five employee pays paid out of the Food Service Fund (charged to the Child Nutrition Cluster) tested were determined to have been for activities unrelated to food service operations. Therefore, employee wages in the amount of \$378 (projected to \$8,773) were improperly included in Food Service Fund (Child Nutrition Cluster) expenditures. In addition, one employee's total fiscal year 2019 payroll expenditures of \$25,289 were improperly charged to the Special Education Cluster instead of another employee who had total fiscal year 2019 payroll expenditures of \$30,346 paid out of the General Fund that should have been charged to the Special Education Cluster. The \$25,289 will be considered a questioned cost.

The noncompliance was caused by the District improperly inputting the employee's fund/federal program identification at the beginning and throughout the year as well as lack of supervisory review of federal program funds to ensure correct federal program in the payroll accounting system.

Therefore \$25,289 in expenditures are considered to be questioned costs of the Special Education Cluster program.

The District should implement additional control procedures to help ensure payroll expenditures charged to the Child Nutrition Cluster and Special Education Cluster are limited to activities specifically associated with food service and special education operations, respectively.

**Official's Response: See Corrective Action Plan**

<b>Finding Number:</b>	2019-006
<b>CFDA Number and Title:</b>	Child Nutrition Cluster #10.553 and 10.555
<b>Federal Award Identification Number / Year:</b>	2019
<b>Federal Agency:</b>	U.S. Department of Agriculture
<b>Compliance Requirement:</b>	Suspension and Debarment
<b>Pass-Through Entity:</b>	Ohio Department of Education
<b>Repeat Finding from Prior Audit?</b>	Yes
<b>Prior Audit Finding Number:</b>	2018-004

NONCOMPLIANCE AND MATERIAL WEAKNESS

**Suspension and Debarment**

**2 CFR § 3482.12** gives regulatory effect to the Department of Education for **2 CFR §180.300** which states when a non-Federal entity enters into a covered transaction with an entity at a lower tier, the non-Federal entity must verify that the entity is not suspended or debarred or otherwise excluded. Furthermore, “covered transactions” include those procurement contracts for goods and services awarded under a grant or cooperative. 2 CFR §180.300 further states grantees and sub-grantees must not make any award or permit any award (subgrant or contract) at any tier to any party which is debarred or suspended or is otherwise excluded from or ineligible for participation in Federal assistance programs under Executive Order 12549, “Debarment and Suspension” by

- (a) Checking the System for Award Management (SAM) exclusions; or
- (b) Collecting a certification from that person; or
- (c) Adding a clause or condition to the covered transaction with that person.

For 2 out of 13 (15%) Child Nutrition Cluster (Food Service Operation) program vendors tested, a System for Award Management (SAM) verification was not completed in order to ensure the vendors were not suspended and/or debarred. In addition, the District did not obtain a certification from the vendors nor did the District include a clause or condition in its contracts indicating the vendors were not excluded or disqualified. The auditors performed a subsequent search of the SAM for these vendors paid from Child Nutrition Cluster grant monies and determined they were not suspended or debarred or otherwise excluded.

The District should implement procedures to ensure one of the three aforementioned methods is used to verify the entity is not excluded or disqualified prior to entering covered transactions and to avoid potential future opinion modification. In addition, if the District reviews the SAM online at <https://www.sam.gov/portal/public/SAM>, a search print out should be maintained to document the search had been performed for all vendors to whom federal dollars are disbursed.

**Official’s Response: See Corrective Action Plan**

# NORTHWEST LOCAL SCHOOL DISTRICT



2309 Locust Street S, Canal Fulton, OH 44614 P: (330) 854-2291 F: (330) 854-3591 www.northwest.sparcc.org

## SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS 2 CFR 200.511(b) JUNE 30, 2019

<b>Finding Number</b>	<b>Finding Summary</b>	<b>Status</b>	<b>Additional Information</b>
2018-001 First reported in 2014	Ohio Rev. Code § 117.38 – The District did not report the financial activity of the District in accordance with generally accepted accounting principles.	No	Not corrected due to cost benefit analysis performed by the District. Refer to Finding Number 2019-002
2018-002 First reported in 2014	Ohio Rev. Code § 5705.10(1) – Negative fund balances were noted in several funds	No	Not corrected due to lack of funds for repayment. Refer to Finding Number 2019-003
2018-003	2 CFR. § 210.8(b) – The District did not complete the reimbursement request within 60 days after the last day of the claim month.	Yes	Corrected.
2018-004 First reported in 2015	2 CFR. § 3485.12 – The District did not perform a search of the ELPS or otherwise verify that vendors were not suspended or debarred.	No	Not corrected due to lack of control procedures. Refer to Finding Number 2019-006

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# NORTHWEST LOCAL SCHOOL DISTRICT



2309 Locust Street S, Canal Fulton, OH 44614 P: (330) 854-2291 F: (330) 854-3591 www.northwest.sparcc.org

## CORRECTIVE ACTION PLAN 2 CFR § 200.511(c) JUNE 30, 2019

<b>Finding Number:</b>	2019-001
<b>Planned Corrective Action:</b>	We have expanded training on the posting of revenues to all funds the District receives and reevaluated and adjusted our monthly review process.
<b>Anticipated Completion Date:</b>	December 2019
<b>Responsible Contact Person:</b>	Treasurer
<b>Finding Number:</b>	2019-002
<b>Planned Corrective Action:</b>	The Board of Education, at the request of the Treasurer, has agreed to report the annual financial results on a cash basis of accounting. The District's financial statements will be prepared in a format that substantially conforms to the reporting model prescribed by Governmental Accounting Standards Board Statement No. 34 or "GAAP look-a-like" financial statements.
<b>Anticipated Completion Date:</b>	June 2020
<b>Responsible Contact Person:</b>	Treasurer
<b>Finding Number:</b>	2019-003
<b>Planned Corrective Action:</b>	The Statement of Cash Position Report reflects negative fund balances. The District will monitor this report and make necessary advances.
<b>Anticipated Completion Date:</b>	June 2020
<b>Responsible Contact Person:</b>	Treasurer
<b>Finding Number:</b>	2019-004
<b>Planned Corrective Action:</b>	The District will regularly review all Fund balances and appropriations and verify that amounts reported are correct and agree with estimates.
<b>Anticipated Completion Date:</b>	December 2019
<b>Responsible Contact Person:</b>	Treasurer
<b>Finding Number:</b>	2019-005
<b>Planned Corrective Action:</b>	The District has implemented a new review process for payroll preparation. The information is then reviewed for accuracy before input for processing.
<b>Anticipated Completion Date:</b>	October 2019
<b>Responsible Contact Person:</b>	Treasurer
<b>Finding Number:</b>	2019-006
<b>Planned Corrective Action:</b>	The District will review bi-monthly all records to ensure that all vendors have been cleared of possible suspension or debarment.
<b>Anticipated Completion Date:</b>	October 2019
<b>Responsible Contact Person:</b>	Treasurer

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# OHIO AUDITOR OF STATE KEITH FABER



**NORTHWEST LOCAL SCHOOL DISTRICT**

**STARK 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  
DECEMBER 31, 2019**