



Dave Yost • Auditor of State



**SOUTHWEST LOCAL SCHOOL DISTRICT  
HAMILTON COUNTY**

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# Dave Yost • Auditor of State

## INDEPENDENT AUDITOR'S REPORT

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

To the Board of Education:

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

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

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

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

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

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

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

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

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major funds, and the aggregate remaining fund information of the Southwest Local School District, Hamilton County, Ohio, as of June 30, 2014, and the respective changes in financial position for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

**Emphasis of Matter**

As discussed in Note 18 to the financial statements, during the year ended June 30, 2014, the District adopted the provisions of Governmental Accounting Standard No. 65, *Items Previously Reported as Assets and Liabilities*. We did not modify our opinion regarding this matter.

**Other Matters**

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis* and *required budgetary comparison schedule for the General Fund* as listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, consisting of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, to the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not opine or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to opine or provide any other assurance.

*Supplementary and Other Information*

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

The Schedule of Federal Award Receipts and Expenditures presents additional analysis as required by the U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations and is also not a required part of the financial statements.

The schedule is management's responsibility, and derives from and relate 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 the schedule directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves in accordance with auditing standards generally accepted in the United States of America. In our opinion, this schedule is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated March 4, 2015, 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 "Dave Yost". The signature is written in a cursive style with a large, looping "D" and "Y".

**Dave Yost**  
Auditor of State

Columbus, Ohio

March 4, 2015

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**Southwest Local School District**  
**Management's Discussion and Analysis**  
**For the Fiscal Year Ended June 30, 2014**  
**(Unaudited)**

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

### **Financial Highlights**

Key financial highlights for fiscal year 2014 are as follows:

- In total, net position increased \$3,172,199.
- General revenues accounted for \$31,544,060 in revenue or 84% of all revenues. Program specific revenues in the form of charges for services and sales and operating grants and contributions accounted for \$5,978,652 or 16% of total revenues of \$37,523,512.
- The District had \$34,351,313 in expenses related to governmental activities; only \$5,978,652 of these expenses were offset by program specific charges for services and operating grants or contributions. General revenues of \$31,544,860 were also used to provide for these programs.

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

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

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

### **Government-wide Financial Statements**

While this document contains the large number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2014?" The Government-wide Financial Statements answer this question. These statements include *all assets, deferred outflows of resources, liabilities and deferred inflows of resources* using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

**Southwest Local School District**  
**Management's Discussion and Analysis**  
**For the Fiscal Year Ended June 30, 2014**  
**(Unaudited)**

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

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

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

### **Fund Financial Statements**

The analysis of the District's major funds is presented in the Fund Financial Statements. Fund financial 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.

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

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

### **The District as a Whole**

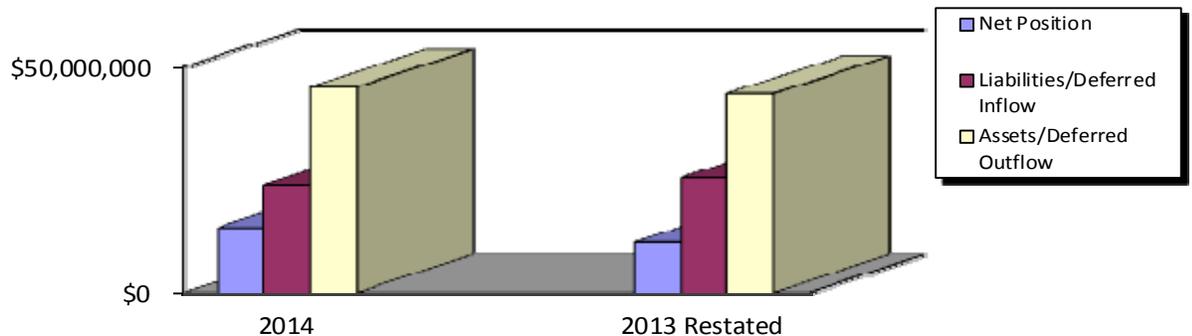
Recall that the Statement of Net position provides the perspective of the District as a whole.

Table 1 provides a summary of the District's net position for 2014 compared to 2013:

**Southwest Local School District  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2014  
(Unaudited)**

**Table 1  
Net Position**

	Governmental Activities	
	2014	2013 Restated
Assets:		
Current and Other Assets	\$23,542,924	\$21,208,440
Capital Assets	21,990,570	22,877,832
Total Assets	45,533,494	44,086,272
Total Deferred Outflows of Resources	143,601	175,745
Liabilities:		
Other Liabilities	3,182,387	3,553,135
Long-Term Liabilities	20,650,167	21,815,023
Total Liabilities	23,832,554	25,368,158
Total Deferred Inflows of Resources	7,502,830	7,724,337
Net Position		
Net Investment in Capital Assets	6,385,169	6,195,765
Restricted	4,006,972	3,561,125
Unrestricted	3,949,580	1,412,632
Total Net Position	\$14,341,721	\$11,169,522



Over time, net position can serve as a useful indicator of a government's financial position. At June 30, 2014, the District's assets exceeded liabilities by \$14,341,721.

At year-end, capital assets represented 48% of total assets. Capital assets include land, land improvements, buildings and improvements, and equipment. Capital assets, net of related debt to acquire the assets at June 30, 2014, were \$6,385,169. These capital assets are used to provide services to the students and are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

**Southwest Local School District**  
**Management's Discussion and Analysis**  
**For the Fiscal Year Ended June 30, 2014**  
(Unaudited)

A portion of the District's net position, \$4,006,972, represents resources that are subject to external restriction on how they must be used. The external restriction will not affect the availability of fund resources for future use.

Current and Other Assets increased mainly due to an increase in taxes receivable which was mainly due to an increase in advances available and income taxes expected to be received. Long Term Liabilities decreased mainly due the District making scheduled principal and interest payments.

Table 2 shows the change in net position for fiscal year 2014 and 2013.

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

	Governmental Activities	
	2014	2013 Restated
Revenues:		
Program Revenues		
Charges for Services and Sales	\$1,526,306	\$1,374,771
Operating Grants and Contributions	4,452,346	3,389,209
General Revenue:		
Income Taxes	4,825,359	3,314,541
Property Taxes	11,623,040	11,196,172
Grants and Entitlements	14,478,635	14,638,914
Other	617,826	656,315
Total Revenues	<u>37,523,512</u>	<u>34,569,922</u>
Program Expenses:		
Instruction	21,888,563	20,629,215
Support Services:		
Pupil and Instructional Staff	2,042,216	2,010,798
General and School Administrative and Fiscal	3,486,735	3,522,301
Operations and Maintenance	2,833,995	3,063,956
Pupil Transportation	1,188,516	1,235,927
Central	93,564	106,878
Operation of Non-Instructional Services	1,521,069	1,564,674
Extracurricular Activities	691,425	767,971
Interest and Fiscal Charges	605,230	658,416
Total Expenses	<u>34,351,313</u>	<u>33,560,136</u>
Change in Net Position	3,172,199	1,009,786
Beginning Net Position	<u>11,169,522</u>	<u>10,159,736</u>
Ending Net Position	<u><u>\$14,341,721</u></u>	<u><u>\$11,169,522</u></u>

**Southwest Local School District  
 Management’s Discussion and Analysis  
 For the Fiscal Year Ended June 30, 2014  
 (Unaudited)**

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

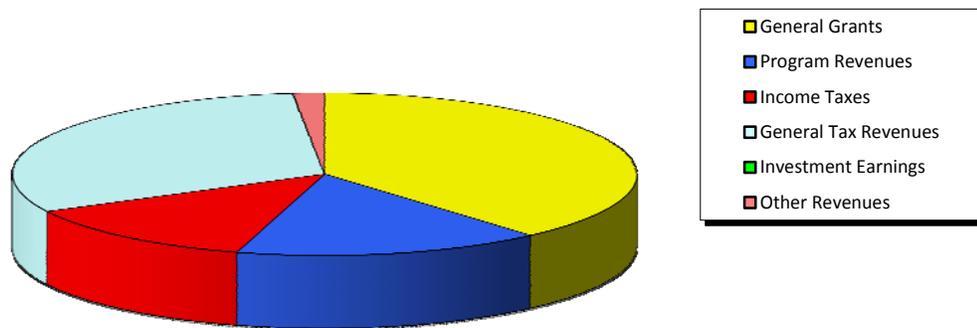
The District depends greatly on property taxes as a revenue source. The unique nature of property taxes in Ohio creates the need to routinely seek voter approval for operating funds. The overall revenues generated by a levy will not increase solely as a result of inflation. As an example, a homeowner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

Thus, Ohio districts do not collect additional property taxes on the increase in property value due to the increase in appraisal value and must regularly return to the voters to maintain a constant level of service. Property taxes made up 31% of revenue for governmental activities for the District in fiscal year 2014.

**Governmental Activities  
 Revenue Sources**

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<u>Revenue Sources</u>	<u>2014</u>	<u>Percentage</u>
General Grants	\$14,478,635	38.6%
Program Revenues	5,978,652	15.9%
Income Taxes	4,825,359	12.9%
General Tax Revenues	11,623,040	31.0%
Investment Earnings	11,095	0.0%
Other Revenues	606,731	1.6%
<b>Total Revenue Sources</b>	<b>\$37,523,512</b>	<b>100.0%</b>



Instruction comprises 64% of total governmental program expenses. Support services expenses were 28% of total governmental program expenses. All other expenses and interest expense was 8% Interest expense was attributable to the outstanding bond and borrowing for capital projects.

Property Taxes increased mainly due to an increase in property tax advances available. Income taxes increased mainly due to an increase in income tax collections. Operating Grants and Contributions increased mainly due to an increase in Special Education funding from the Ohio Department of

**Southwest Local School District**  
**Management's Discussion and Analysis**  
**For the Fiscal Year Ended June 30, 2014**  
(Unaudited)

Education. Total expenses increased in fiscal year 2014 as compared to fiscal year 2013 mainly due to increases in personnel costs and general inflationary factors.

**Governmental Activities**

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

**Table 3**  
**Governmental Activities**

	Total Cost of Services		Net Cost of Services	
	2014	2013	2014	2013
Instruction	\$21,888,563	\$20,629,215	(\$18,009,197)	(\$18,026,712)
Support Services:				
Pupil and Instructional Staff	2,042,216	2,010,798	(1,966,609)	(1,909,215)
General and School Administrative and Fiscal	3,486,735	3,522,301	(3,485,249)	(3,512,759)
Operations and Maintenance	2,833,995	3,063,956	(2,657,884)	(2,895,846)
Pupil Transportation	1,188,516	1,235,927	(1,155,437)	(1,203,880)
Central	93,564	106,878	(82,764)	(96,078)
Operation of Non-Instructional Services	1,521,069	1,564,674	(23,887)	(42,513)
Extracurricular Activities	691,425	767,971	(386,404)	(450,737)
Interest and Fiscal Charges	605,230	658,416	(605,230)	(658,416)
Total Expenses	<u>\$34,351,313</u>	<u>\$33,560,136</u>	<u>(\$28,372,661)</u>	<u>(\$28,796,156)</u>

**The District's Major Funds**

The District has two major governmental funds: the General Fund and the Debt Service Fund. Assets of the general fund comprised \$18,128,899 (77%) and the debt service fund comprised \$4,416,980 (19%) of the total \$23,542,924 governmental funds' assets.

**General Fund:** Fund balance at June 30, 2014 was \$7,730,184, an increase in fund balance from 2013. The primary reasons for the increase in fund balance are due to an increase in taxes revenue.

**Debt Service Fund:** Fund balance at June 30, 2014 was \$3,533,432, an increase in fund balance of \$314,473 from 2013. The primary reason for the increase was mainly due to an increase in taxes revenue.

**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.

**Southwest Local School District  
Management’s Discussion and Analysis  
For the Fiscal Year Ended June 30, 2014  
(Unaudited)**

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During the course of fiscal year 2014, the District amended its general fund; however none of the amendments were significant. The District uses site-based budgeting and the budgeting systems are designed to tightly control total site budgets but provide flexibility for site management. During the course of the year, the District revised the budget in an attempt to deal with unexpected changes in revenues and expenditures.

For the General Fund, original and final budget basis revenue was \$30,500,000. Final budget expenditures were \$30,890,243, compared to actual budgeted expenditures of \$29,967,033. Of the \$923,210 difference, most was due to an overestimate of instruction expenditures.

The General Fund’s ending unobligated cash balance was \$4,624,458.

**Capital Assets and Debt Administration**

***Capital Assets***

At fiscal year end, the District had \$21,990,570 invested in land, land improvements, buildings and improvements and equipment. Table 4 shows fiscal year 2014 balances compared to fiscal year 2013:

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

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	<u>Governmental Activities</u>	
	<u>2014</u>	<u>2013</u>
Land	\$2,990,625	\$2,990,625
Land Improvements	449,602	567,760
Buildings and Improvements	17,757,288	18,488,202
Equipment	<u>793,055</u>	<u>831,245</u>
Total Net Capital Assets	<u>\$21,990,570</u>	<u>\$22,877,832</u>

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

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

***Debt***

At June 30, 2014, the District had \$16,213,492 in bonds and notes outstanding, \$710,000 due within one year. Table 5 summarizes bonds and notes outstanding.

**Southwest Local School District  
Management’s Discussion and Analysis  
For the Fiscal Year Ended June 30, 2014  
(Unaudited)**

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**Table 5  
Outstanding Debt at Year End**

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	Governmental Activities	
	2014	2013
<u>General Obligation Bonds and Notes:</u>		
1999 School Improvement Bonds A	\$330,000	\$645,000
1999 School Improvement Bonds B	680,000	995,000
2008 Refunding Bonds:		
Current Interest Bonds A	4,340,000	4,365,000
Capital Appreciation Bonds A	55,000	55,000
Accretion of Interest A	233,386	212,091
Current Interest Bonds B	4,465,000	4,490,000
Capital Appreciation Bonds B	50,000	50,000
Accretion of Interest B	231,104	210,046
2012 Refunding School Improvement Bonds	2,645,000	2,645,000
Premium on 2008 A and B Refunding Bonds	369,002	402,812
HB264 Series 2011	<u>2,815,000</u>	<u>2,815,000</u>
Total	<u>\$16,213,492</u>	<u>\$16,884,949</u>

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

**For the Future**

In June 2013, Governor John Kasich signed the 2014-15 biennial budget (House Bill 59). HB59 changed the state funding formula for public education. Public school districts in Ohio have seen five different state funding “formula” or calculations within the last decade. HB59 funding for Districts is based on several factors, including enrollment and specific student demographic groups, such as economically disadvantaged students. School districts may receive up to a 6.25% increase in fiscal year 2014 and up to a 10.50% increase in fiscal year 2015. School districts that receive these increases are known as districts “on the cap” or “on the formula”. Southwest Local School District will receive no additional state funding for 2014, or 2015, meaning Southwest Local School District is a “guarantee” District. Southwest Local School District will receive the same level of funding in 2014 and 2015, as received in 2013. Fiscal years 2016 and beyond are not known at this time, meaning that items such as state funding, tangible personal property reimbursement, and medical rates are not known at this time.

**Contacting the District’s Financial Management**

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

Southwest Local School District  
Statement of Net Position  
June 30, 2014

	Governmental Activities
Assets:	
Equity in Pooled Cash and Investments	\$8,353,522
Restricted Assets:	
Cash and Cash Equivalents with Fiscal Agent	545,000
Receivables (Net):	
Taxes	13,899,090
Accounts	54,236
Interest	2,076
Intergovernmental	689,000
Nondepreciable Capital Assets	2,990,625
Depreciable Capital Assets, Net	<u>18,999,945</u>
 Total Assets	 <u>45,533,494</u>
 Deferred Outflows of Resources:	
Deferred Charge on Refunding	<u>143,601</u>
 Total Deferred Outflows of Resources	 <u>143,601</u>
 Liabilities:	
Accounts Payable	89,770
Accrued Wages and Benefits	3,037,721
Accrued Interest Payable	54,896
Long-Term Liabilities:	
Due Within One Year	1,157,727
Due In More Than One Year	<u>19,492,430</u>
 Total Liabilities	 <u>23,832,544</u>
 Deferred Inflows of Resources:	
Property Taxes	7,242,830
Grants and Other Taxes	<u>260,000</u>
 Total Deferred Inflows of Resources	 <u>7,502,830</u>
 Net Position:	
Net Investment in Capital Assets	6,385,169
Restricted for:	
Debt Service	3,562,520
Capital Projects	176,027
Federal Grants	138,038
Other Purposes	130,387
Unrestricted	<u>3,949,580</u>
 Total Net Position	 <u>\$14,341,721</u>

See accompanying notes to the basic financial statements.

Southwest Local School District  
Statement of Activities  
For the Fiscal Year Ended June 30, 2014

	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position
		Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities
<b>Governmental Activities:</b>				
<b>Instruction:</b>				
Regular	\$16,147,512	\$291,014	\$777,367	(\$15,079,131)
Special	4,931,434	31,601	2,162,085	(2,737,748)
Vocational	103	0	2,080	1,977
Other	809,514	239,163	376,056	(194,295)
<b>Support Services:</b>				
Pupil	1,716,935	0	40,313	(1,676,622)
Instructional Staff	325,281	0	35,294	(289,987)
General Administration	35,052	0	0	(35,052)
School Administration	2,503,078	0	1,406	(2,501,672)
Fiscal	948,605	35	45	(948,525)
Operations and Maintenance	2,833,995	102,116	73,995	(2,657,884)
Pupil Transportation	1,188,516	3,889	29,190	(1,155,437)
Central	93,564	0	10,800	(82,764)
Operation of Non-Instructional Services	1,521,069	553,467	943,715	(23,887)
Extracurricular Activities	691,425	305,021	0	(386,404)
Interest and Fiscal Charges	605,230	0	0	(605,230)
<b>Total Governmental Activities</b>	<b>\$34,351,313</b>	<b>\$1,526,306</b>	<b>\$4,452,346</b>	<b>(28,372,661)</b>

<b>General Revenues:</b>	
Income Taxes	4,825,359
Property Taxes Levied for:	
General Purposes	10,399,181
Debt Service Purposes	1,223,859
Grants and Entitlements, Not Restricted	14,478,635
Revenue in Lieu of Taxes	356,253
Unrestricted Contributions	7,828
Investment Earnings	11,095
Other Revenues	242,650
<b>Total General Revenues</b>	<b>31,544,860</b>
<b>Change in Net Position</b>	<b>3,172,199</b>
<b>Net Position - Beginning of Year, Restated</b>	<b>11,169,522</b>
<b>Net Position - End of Year</b>	<b>\$14,341,721</b>

See accompanying notes to the basic financial statements.

Southwest Local School District  
Balance Sheet  
Governmental Funds  
June 30, 2014

	General	Debt Service	Other Governmental Funds	Total Governmental Funds
<b>Assets:</b>				
Equity in Pooled Cash and Investments	\$5,254,176	\$2,538,432	\$560,914	\$8,353,522
Cash and Cash Equivalents with Fiscal Agent	0	545,000	0	545,000
<b>Receivables (Net):</b>				
Taxes	12,565,542	1,333,548	0	13,899,090
Accounts	47,105	0	7,131	54,236
Interest	2,076	0	0	2,076
Intergovernmental	260,000	0	429,000	689,000
<b>Total Assets</b>	<b>18,128,899</b>	<b>4,416,980</b>	<b>997,045</b>	<b>23,542,924</b>
<b>Liabilities:</b>				
Accounts Payable	82,442	0	7,328	89,770
Accrued Wages and Benefits	2,666,534	0	371,187	3,037,721
Compensated Absences	307,503	0	0	307,503
<b>Total Liabilities</b>	<b>3,056,479</b>	<b>0</b>	<b>378,515</b>	<b>3,434,994</b>
<b>Deferred Inflows of Resources:</b>				
Property Taxes	7,080,160	883,548	0	7,963,708
Grants and Other Taxes	260,000	0	429,000	689,000
Investment Earnings	2,076	0	0	2,076
<b>Total Deferred Inflows of Resources</b>	<b>7,342,236</b>	<b>883,548</b>	<b>429,000</b>	<b>8,654,784</b>
<b>Fund Balances:</b>				
Restricted	0	3,533,432	436,075	3,969,507
Assigned	426,884	0	0	426,884
Unassigned	7,303,300	0	(246,545)	7,056,755
<b>Total Fund Balances</b>	<b>7,730,184</b>	<b>3,533,432</b>	<b>189,530</b>	<b>11,453,146</b>
<b>Total Liabilities, Deferred Inflows and Fund Balances</b>	<b>\$18,128,899</b>	<b>\$4,416,980</b>	<b>\$997,045</b>	<b>\$23,542,924</b>

See accompanying notes to the basic financial statements.

Southwest Local School District  
 Reconciliation of Total Governmental Fund Balance to  
 Net Position of Governmental Activities  
 June 30, 2014

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Total Governmental Fund Balance \$11,453,146

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

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

Capital assets used in the operation of Governmental Funds 21,990,570

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

Delinquent Property Taxes	\$720,878	
Interest	2,076	
Intergovernmental	<u>429,000</u>	
		1,151,954

In the statement of net position interest payable is accrued when  
 incurred; whereas, in the governmental funds interest is  
 reported as a liability only when it will require the use of  
 current financial resources. (54,896)

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

Compensated Absences (4,129,162)

Deferred outflows associated with long-term liabilities  
 are not reported in the funds. 143,601

Long-term liabilities are not due and payable in the current  
 period and, therefore, are not reported in the funds. (16,213,492)

Net Position of Governmental Activities \$14,341,721

See accompanying notes to the basic financial statements.

Southwest Local School District  
Statement of Revenues, Expenditures  
and Changes in Fund Balance  
Governmental Funds  
For the Fiscal Year Ended June 30, 2014

	General	Debt Service	Other Governmental Funds	Total Governmental Funds
<b>Revenues:</b>				
Property and Other Taxes	\$10,233,119	\$1,205,817	\$0	\$11,438,936
Income Taxes	4,825,359	0	0	4,825,359
Tuition and Fees	564,793	0	0	564,793
Investment Earnings	10,216	0	4	10,220
Intergovernmental	15,861,675	151,437	2,488,919	18,502,031
Extracurricular Activities	75,234	0	229,737	304,971
Charges for Services	823	0	610,353	611,176
Revenue in Lieu of Taxes	346,595	9,658	0	356,253
Other Revenues	254,835	0	40,009	294,844
<b>Total Revenues</b>	<b>32,172,649</b>	<b>1,366,912</b>	<b>3,369,022</b>	<b>36,908,583</b>
<b>Expenditures:</b>				
<b>Current:</b>				
<b>Instruction:</b>				
Regular	14,889,462	0	770,230	15,659,692
Special	4,074,381	0	904,769	4,979,150
Vocational	103	0	0	103
Other	809,514	0	0	809,514
<b>Support Services:</b>				
Pupil	1,681,624	0	37,845	1,719,469
Instructional Staff	295,465	0	46,780	342,245
General Administration	35,052	0	0	35,052
School Administration	2,551,793	0	1,286	2,553,079
Fiscal	952,186	21,701	39	973,926
Operations and Maintenance	2,651,419	0	151,751	2,803,170
Pupil Transportation	1,199,274	0	0	1,199,274
Central	82,764	0	10,800	93,564
Operation of Non-Instructional Services	0	0	1,499,991	1,499,991
Extracurricular Activities	515,188	0	231,835	747,023
Capital Outlay	0	0	30,808	30,808
<b>Debt Service:</b>				
Principal Retirement	0	680,000	0	680,000
Interest and Fiscal Charges	4,589	563,007	0	567,596
<b>Total Expenditures</b>	<b>29,742,814</b>	<b>1,264,708</b>	<b>3,686,134</b>	<b>34,693,656</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>2,429,835</b>	<b>102,204</b>	<b>(317,112)</b>	<b>2,214,927</b>
<b>Other Financing Sources (Uses):</b>				
Proceeds from Sale of Capital Assets	0	0	950	950
Transfers In	0	212,269	0	212,269
Transfers (Out)	(212,269)	0	0	(212,269)
<b>Total Other Financing Sources (Uses)</b>	<b>(212,269)</b>	<b>212,269</b>	<b>950</b>	<b>950</b>
<b>Net Change in Fund Balance</b>	<b>2,217,566</b>	<b>314,473</b>	<b>(316,162)</b>	<b>2,215,877</b>
<b>Fund Balance - Beginning of Year</b>	<b>5,512,618</b>	<b>3,218,959</b>	<b>505,692</b>	<b>9,237,269</b>
<b>Fund Balance - End of Year</b>	<b>\$7,730,184</b>	<b>\$3,533,432</b>	<b>\$189,530</b>	<b>\$11,453,146</b>

See accompanying notes to the basic financial statements.

Southwest Local School District  
 Reconciliation of the Statement of Revenues, Expenditures, and Changes  
 in Fund Balance of Governmental Funds to the Statement of Activities  
 For the Fiscal Year Ended June 30, 2014

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Net Change in Fund Balance - Total Governmental Funds \$2,215,877

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

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

Capital assets used in governmental activities	\$148,548	
Depreciation Expense	<u>(1,035,810)</u>	(887,262)

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

Delinquent Property Taxes	\$184,104	
Interest	875	
Intergovernmental	<u>411,119</u>	596,098

Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. 680,000

In the statement of activities interest expense is accrued when incurred; whereas, in governmental funds an interest expenditure is reported when due. 3,053

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

Compensated Absences	\$605,120	
Amortization of Bond Premium	33,810	
Amortization of Deferred Charge on Refunding	(32,144)	
Bond Accretion	<u>(42,353)</u>	564,433

Change in Net Position of Governmental Activities \$3,172,199

See accompanying notes to the basic financial statements.

Southwest Local School District  
Statement of Fiduciary Net Position  
Fiduciary Funds  
June 30, 2014

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	Private Purpose Trust	Agency
	<u>          </u>	<u>          </u>
Assets:		
Equity in Pooled Cash and Investments	\$3,506	\$115,498
Receivables (Net):		
Accounts	<u>          0</u>	<u>          631</u>
Total Assets	<u>          3,506</u>	<u>         116,129</u>
Liabilities:		
Accounts Payable	0	1,776
Other Liabilities	<u>          0</u>	<u>         114,353</u>
Total Liabilities	<u>          0</u>	<u>         \$116,129</u>
Net Position:		
Held in Trust	<u>          3,506</u>	
Total Net Position	<u>          \$3,506</u>	

See accompanying notes to the basic financial statements.

Southwest Local School District  
Statement of Changes in Fiduciary Net Position  
Fiduciary Fund  
For the Fiscal Year Ended June 30, 2014

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	Private Purpose Trust
Additions:	
Donations	<u>\$7,000</u>
Total Additions	<u>7,000</u>
Deductions:	
Scholarships	<u>8,196</u>
Total Deductions	<u>8,196</u>
Change in Net Position	(1,196)
Net Position - Beginning of Year	<u>4,702</u>
Net Position - End of Year	<u>\$3,506</u>

See accompanying notes to the basic financial statements.

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

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**Note 1 – Description of the District**

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

The District operates under a locally elected five member Board form of government and provides educational services as authorized by its charter or further mandated by state and/or federal agencies. This Board controls the District's instructional and support facilities staffed by 134 non-certificated personnel and 197 certificated full time teaching and administrative personnel to provide services to students and other community members.

The District enrollment was 3,724. It currently operates six elementary schools, one junior school (grades 7-8), and one comprehensive high school (grades 9-12).

**Reporting Entity**

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

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

This District is associated with two organizations which are defined as jointly governed organizations. These organizations are the Hamilton/Clermont Cooperative Association and Great Oaks Institute of Technology and Career Development. These organizations are presented in Note 12.

**Note 2 – Summary of Significant Accounting Policies**

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

**Measurement Focus**

**Government-wide Financial Statements**

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

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

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

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues of the District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the District.

**Fund Financial Statements**

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

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

**Fund Accounting**

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

**Governmental Funds**

Governmental funds focus on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets, deferred outflows of resources, liabilities, and deferred inflows of resources is reported as fund balance. The following are the District's major governmental funds:

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

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

Debt Service Fund – The debt service fund is used to account for the accumulation of resources for the payment of general obligation bond principal and interest and certain other long-term obligations from governmental resources when the District is obligated in some manner for the payment.

**Fiduciary Funds**

Fiduciary fund reporting focuses on net position and changes in net position. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds and agency funds. Trust funds are used to account for assets held by the District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the District's own programs. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The District has a student activity fund which accounts for assets and liabilities generated by student managed activities. The District's only trust fund is a private purpose trust which accounts for scholarship programs for students.

**Basis of Accounting**

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

Revenues – Exchange and Non-exchange Transactions

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

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

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

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resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

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

Deferred Outflows/Inflows of Resources

In addition to assets, the statements of financial position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources, represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statements of financial position report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. For the District, deferred inflows of resources include property taxes and grants and other taxes. Property taxes represent amounts for which there is an enforceable legal claim as of June 30, 2014, but which were levied to finance year 2015 operations. These amounts have been recorded as deferred inflows on both the government-wide statement of net position and the governmental fund financial statements. Unavailable revenue is reported only on the governmental funds balance sheet, and represents receivables which will not be collected within the available period. For the District, grants and other taxes includes tax incremental financing (TIF). These amounts are recognized as deferred inflows of resources in the period the amounts become available. TIF's have been recorded as deferred inflows on both the government-wide statement of net position and the governmental fund financial statements for the same reasons as property taxes.

Expenses/Expenditures

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

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

**Equity in Pooled Cash and Investments**

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

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

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

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The District has invested funds in the State Treasury Asset Reserve of Ohio (STAROhio) during fiscal year 2014. STAROhio is an investment pool managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company but does operate in a manner consistent with Rule2A7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price, which is the price the investment could be sold for on June 30, 2014.

Following Ohio statutes, the Board has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue during fiscal year 2014 amounted to \$10,216 in the general fund and \$4 in other governmental funds.

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

**Capital Assets**

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

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

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

**Compensated Absences**

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

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

For governmental fund financial statements, the expenditures for compensated absences are recognized when paid, or in the case of termination benefits, when due for payment. These amounts due at year end are recorded in the account "compensated absences payable" in the fund from which the

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

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employees who have accumulated unpaid leave are paid. Compensated absences are reported in governmental funds only if they have matured.

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

<u>Vacation</u>	<u>Certified</u>	<u>Administrators</u>	<u>Non-certificated</u>
How earned	Not Eligible	20 days	11-26 days for each service year depending on length of service
Maximum Accumulation	Not Applicable	20 days	26 days
Vested	Not Applicable	As Earned	As Earned
Termination Entitlement	Not Applicable	None	None
<u>Sick Leave</u>	<u>Certified</u>	<u>Administrators</u>	<u>Non-certificated</u>
How Earned	1 1/4 days per month of employment (15 days per year)	1 1/4 days per month of employment (15 days per year)	1 1/4 days per month of employment (15 days per year)
Maximum Accumulation	300 days	300 days	300 days
Vested	As Earned	As Earned	As Earned
Termination Entitlement	Per Contract	Per Contract	Per Contract

**Net Position**

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

The District applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position are available. Of the District's \$4,006,972 in restricted net position, none were restricted by enabling legislation.

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

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**Interfund Activity**

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

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

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

**Fund Balance**

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

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

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

Committed – resources that are constrained for specific purposes that are internally imposed by the government at its highest level of decision making authority, the Board of Education.

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

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

The District considers committed, assigned, and unassigned fund balances, respectively, to be spent when expenditures are incurred for purposes for which any of the unrestricted fund balance classifications could be used.

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

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**Estimates**

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

**Restricted Assets**

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

**Cash and Cash Equivalents with Fiscal Agent**

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

**Note 3 – Equity in Pooled Cash and Investments**

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

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

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

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

Interim Monies – Those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Ohio law permits interim monies to be invested or deposited in the following securities:

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

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

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obligations, provided that investments in securities described in this division are made only through eligible institutions.

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

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

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

**Deposits**

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The District's policy for deposits is any balance not covered by depository insurance will be collateralized by the financial institutions with pledged securities or a line of credit. As of June 30, 2014, \$7,064,546 of the District's bank balance of \$8,672,476 was exposed to custodial risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the District's name.

Ohio Revised Code Chapter 135, Uniform Depository Act, authorizes pledging of pooled securities in lieu of specific securities. Specifically, a designated public depository may pledge a single pool of eligible securities to secure repayment of all public monies deposited in the financial institution, provided that all times the total value of the securities so pledged is at least

**Southwest Local School District**  
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equal to 105% of the total amount of all public deposits secured by the pool, including the portion of such deposits covered by any federal deposit insurance.

**Investments**

As of June 30, 2014, the District had the following investments:

Investment Type	Fair Value	Weighted Average Maturity (Years)
Federal Farm Credit Bank	\$499,840	2.23
STAROhio	18,629	0.14
Total Fair Value	\$518,469	
Portfolio Weighted Average Maturity		2.15

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

Credit Risk – It is the District’s policy to limit its investments that are not obligations of the U.S. Government or obligations explicitly guaranteed by the U.S. Government to investments, which have the highest credit quality rating issued by nationally recognized statistical rating organizations. The District’s investments in the Federal Farm Credit Bank were rated AA+ by Standard and Poor’s and Fitch ratings and Aaa by Moody’s Investment Service. Investments in STAROhio were rated AAAm by Standard & Pools.

Concentration of Credit Risk – The District’s investment policy allows investments in Federal Agencies or Instrumentalities. The District has invested 96% of the District’s investments in Federal Farm Credit Bank and 4% in STAROhio.

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

**Note 4 – Property and Income Taxes**

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

Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established. The District receives property taxes from Hamilton County. The County Auditor periodically advances to the

**Southwest Local School District**  
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District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2014, are available to finance fiscal year 2015 operations. The amount available for advance can vary based on the date the tax bills are sent.

Accrued property taxes receivable represents delinquent taxes outstanding and real property and public utility taxes that became measurable as of June 30, 2014. Although total property tax collections for the next fiscal year are measurable, only the amount available as an advance at June 30 is intended to finance current fiscal year operations. The receivable is therefore offset by a credit to deferred revenue for that portion not intended to finance \$4,260,000 in the General Fund and \$450,000 in the Debt Service Fund.

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

	<u>Amount</u>
Agricultural/Residential and Other Real Estate	\$476,523,440
Public Utility Personal	<u>24,608,520</u>
Total	<u><u>\$501,131,960</u></u>

**Income Tax**

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

**Note 5 – Receivables**

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Receivables at June 30, 2014, consisted of taxes, accounts (rent and student fees), interest and intergovernmental grants. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current year guarantee of federal funds.

**Note 6 – Capital Assets**

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

**Southwest Local School District  
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	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
<b>Governmental Activities</b>				
<i>Capital Assets, not being depreciated:</i>				
Land	\$2,990,625	\$0	\$0	\$2,990,625
<i>Capital Assets, being depreciated:</i>				
Land Improvements	2,686,299	0	0	2,686,299
Buildings and Improvements	34,641,460	0	0	34,641,460
Equipment	5,735,693	148,548	96,710	5,787,531
Totals at Historical Cost	<u>46,054,077</u>	<u>148,548</u>	<u>96,710</u>	<u>46,105,915</u>
Less Accumulated Depreciation:				
Land Improvements	2,118,539	118,158	0	2,236,697
Buildings and Improvements	16,153,258	730,914	0	16,884,172
Equipment	4,904,448	186,738	96,710	4,994,476
Total Accumulated Depreciation	<u>23,176,245</u>	<u>1,035,810</u>	<u>96,710</u>	<u>24,115,345</u>
Governmental Activities Capital Assets, Net	<u>\$22,877,832</u>	<u>(\$887,262)</u>	<u>\$0</u>	<u>\$21,990,570</u>

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$783,749
Special	53,170
Support Services:	
Instructional Staff	2,031
School Administration	44,539
Fiscal	437
Operations and Maintenance	52,498
Pupil Transportation	55,180
Operation of Non-Instructional Services	25,744
Extracurricular Activities	16,981
Total Depreciation Expense	<u>\$1,035,810</u>

**Note 7 – Notes Payable**

A summary of the note transactions for the current year end are as follows:

	<u>Rate</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Governmental Activities:					
General Fund					
Real Estate Acquisition Note	1.75%	\$395,000	\$0	(\$395,000)	\$0

**Southwest Local School District**  
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**Note 8 – Long-Term Liabilities**

	Interest Rate	Issuance Date	Maturity Date	Restated Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
<b>Governmental Activities</b>								
<u>General Obligation Bonds:</u>								
\$10,000,000 - School Improvement A	4.96%	4/1/99	12/1/18	\$645,000	\$0	(\$315,000)	\$330,000	\$330,000
\$10,000,000 - School Improvement B	5.05%	5/1/99	12/1/18	995,000	0	(315,000)	680,000	330,000
Refunding A:								
\$4,540,000 - Current Interest	4.00%	12/1/07	12/1/19	4,365,000	0	(25,000)	4,340,000	25,000
\$55,000 - Capital Appreciation	4.00%	12/1/07	12/1/19	55,000	0	0	55,000	0
Accretion of Interest	0.00%	12/1/07	12/1/19	212,091	21,295	0	233,386	0
Refunding B:								
\$4,665,000 - Current Interest	4.00%	12/1/07	12/1/20	4,490,000	0	(25,000)	4,465,000	25,000
\$50,000 - Capital Appreciation	4.00%	12/1/07	12/1/20	50,000	0	0	50,000	0
Accretion of Interest	0.00%	12/1/07	12/1/20	210,046	21,058	0	231,104	0
2012 Refunding School Improvement Bonds	0.00%	12/1/11	12/1/18	2,645,000	0	0	2,645,000	0
\$475,136 - Premium on A and B Refunding	0.00%	12/1/07	12/1/20	402,812	0	(33,810)	369,002	0
\$2,815,000 - HB264	6.00%	3/10/11	12/1/25	2,815,000	0	0	2,815,000	0
Total Bonds				16,884,949	42,353	(713,810)	16,213,492	710,000
Compensated Absences				4,930,074	59,633	(53,042)	4,436,665	447,727
Total Governmental Activities								
Long-Term Liabilities				\$21,815,023	\$101,986	(\$1,266,852)	\$20,650,157	\$1,157,727

General obligation bonds will be paid from the debt service fund. Compensated absences will be paid from the fund from which the person is paid.

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

Fiscal Year Ending June 30	General Obligation Bonds			Capital Appreciation Bonds		
	Principal	Interest	Total	Principal	Interest	Total
2015	\$710,000	\$661,649	\$1,371,649	\$0	\$0	\$0
2016	755,000	626,514	1,381,514	0	0	0
2017	795,000	598,052	1,393,052	0	0	0
2018	835,000	573,668	1,408,668	105,000	825,000	930,000
2019	860,000	549,499	1,409,499	0	0	0
2020-2024	3,890,000	2,344,750	6,234,750	0	0	0
2025-2028	7,430,000	675,078	8,105,078	0	0	0
Total	\$15,275,000	\$6,029,210	\$21,304,210	\$105,000	\$825,000	\$930,000

**Note 9 - Pension Plans**

**School Employees Retirement System of Ohio**

Plan Description

The District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple-employer defined benefit pension plan. 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 state statute per Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report can be obtained on SERS' website at [www.ohsers.org](http://www.ohsers.org) under *Employers/Audit Resources*.

**Southwest Local School District**  
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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, up to statutory maximum amounts, by the SERS' Retirement Board. The Retirement Board acting with the advice of the actuary, allocates the employer contribution rate among four of the funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care fund) of the System. For fiscal year ending June 30, 2014, the allocation to pension and death benefits is 13.10%. The remaining 0.90% of the 14% employer contribution rate is allocated to the Health Care and Medicare B Funds. The District's contributions to SERS for the years ended June 30, 2014, 2013, and 2012 were \$483,648, \$472,440, and \$504,648, 83% has been contributed for fiscal year 2014 and 100% for fiscal years 2013 and 2012.

**State Teachers Retirement System of Ohio**

Plan Description

The School District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple employer public employee retirement system. STRS Ohio is a statewide retirement plan for licensed teachers and other faculty members employed in the public schools of Ohio or any school, community school, college, university, institution, or other agency controlled, managed and supported, in whole or in part, by the state or any political subdivision thereof. Additional information or copies of STRS Ohio's *Comprehensive Annual Financial Report* can be requested by writing to STRS Ohio, 275 E. Broad Street, Columbus, OH 43215-3771, by calling toll-free 1-888-227-7877, or by visiting the STRS Ohio web site at [www.strsoh.org](http://www.strsoh.org).

Plan Options

New members have a choice of three retirement plan options. In addition to the Defined Benefit (DB) Plan, new members are offered a Defined Contribution (DC) Plan and a Combined Plan. The DC Plan allows members to allocate all their member contributions and employer contributions equal to 10.5% of earned compensation among various investment choices. The Combined Plan offers features of the DC Plan and DB Plan. In the Combined Plan, member contributions are allocated to investment choices by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. Contributions into the DC Plan and Combined Plan are credited to member accounts as employers submit their payroll information to STRS Ohio, generally on a biweekly basis. DC and Combined Plan members will transfer to the DB Plan during their fifth year of membership unless they permanently select the DC or Combined Plan.

DB Plan Benefits

Plan benefits are established under Chapter 3307 of the Revised Code. Any member may retire who has (i) five years of service credit and attained age 60; (ii) 25 years of service credit and attained age 55; or (iii) 30 years of service credit regardless of age. The annual retirement allowance, payable for life, is the greater of the "formula benefit" or the "money-purchase benefit" calculation. Under the "formula benefit," the retirement allowance is based on years of credited service and final average salary, which is the average of the member's three highest salary years. The annual allowance is calculated by using a base percentage of 2.2% multiplied by the total number of years of service credit (including Ohio-valued purchased credit) times the final average salary. The 31<sup>st</sup> year of earned Ohio service credit is calculated at 2.5%. An additional one-tenth of a percent is added to the calculation for every year of earned Ohio service over 31 years (2.6% for 32 years, 2.7% for 33 years and so on) until 100% of final average salary is reached. For members with 35 or more years of Ohio contributing service, the first 30 years will be

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calculated at 2.5% instead of 2.2%. Under the “money-purchase benefit” calculation, a member’s lifetime contributions plus interest at specified rates are matched by an equal amount from other STRS Ohio funds. This total is then divided by an actuarially determined annuity factor to determine the maximum annual retirement allowance.

DC Plan Benefits

Benefits are established under Sections 3307.80 to 3307.89 of the Revised Code. For members who select the DC Plan, all member contributions and employer contributions at a rate of 10.5% are placed in an investment account. The member determines how to allocate the member and employer money among various investment choices. 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. Employer contributions into members’ accounts are vested after the first anniversary of the first day of paid service. Members in the DC Plan who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the member’s designated beneficiary is entitled to receive the member’s account balance.

Combined Plan Benefits

Member contributions are allocated by the member, and employer contributions are used to fund a defined benefit payment. A member’s defined benefit is determined by multiplying 1% of the member’s final average salary by the member’s years of service credit. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60. The defined contribution portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50.

A retiree of STRS Ohio or another Ohio public retirement system is eligible for reemployment as a teacher following the elapse of two months from the date of retirement. Contributions are made by the reemployed member and employer during the reemployment. Upon termination of reemployment or age 65, whichever comes later, the retiree is eligible for an annuity benefit or equivalent lump-sum payment in addition to the original retirement allowance. A reemployed retiree may alternatively receive a refund of only member contributions with interest before age 65, once employment is terminated.

Benefits are increased annually by 3% of the original base amount for DB Plan participants.

The DB and Combined Plans offer access to health care coverage to eligible retirees who participated in the plans and their eligible dependents. Coverage under the current program includes hospitalizations, physicians’ fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums. By Ohio law, health care benefits are not guaranteed.

A DB or Combined Plan member with five or more years’ credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of members who die before retirement may qualify for survivor benefits. A death benefit of \$1,000 is payable to the beneficiary of each deceased retired member who participated in the DB Plan. Death benefit coverage up to \$2,000 can be purchased by participants in the DB, DC or Combined Plans. Various other benefits are available to members’ beneficiaries.

Funding Policy

Chapter 3307 of the Revised Code provides statutory authority for member and employer contributions. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of

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its consulting actuary, not to exceed statutory maximum rates of 11% for members and 14% for employers.

Contribution requirements and the contributions actually made for the fiscal year ended June 30, 2014, were 11% of covered payroll for members and 14% for employers. The District's contributions to STRS for the years ended June 30, 2014, 2013, and 2012 were \$1,969,488, \$1,963,380, and \$2,110,680, respectively; 83% has been contributed for fiscal year 2014 and 100% for fiscal years 2013 and 2012.

**Note 10- Post Employment Benefits**

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**School Employees Retirement System of Ohio**

Plan Description

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

Medicare Part B Plan

The Medicare B plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Ohio Revised Code (ORC) 3309.69. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B premium for calendar year 2013 was \$104.90 for most participants, but could be as high as \$335.70 depending on their income; SERS' reimbursement to retirees was \$45.50.

The Retirement Board, acting with the advice of the actuary, allocates a portion of the current employer contribution rate to the Medicare B Fund. For fiscal year 2014, the actuarially required allocation was 0.74%. District contributions for the years ended June 30, 2014, 2013 and 2012 were \$25,564, \$24,972, and \$27,395, respectively, which equaled the required contributions each year.

Health Care Plan

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

The ORC provides the statutory authority to fund SERS' postemployment benefits through employer contributions. Active members do not make contributions to the postemployment benefit plans.

The Health Care Fund was established under, and is administered in accordance with, Internal Revenue Code 105(e). Each year after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer 14% contribution to the Health Care Fund. At June 30, 2014, the health care allocation was 0.16%. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. 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 2014, the minimum compensation level was established at \$20,250. The surcharge, added to the unallocated

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portion of the 14% employer contribution rate is the total amount assigned to the Health Care Fund. The District contributions assigned to health care for the years ended June 30, 2014, 2013, and 2012 were \$5,527, \$5,399, and \$19,825, respectively; 83% has been contributed for fiscal year 2014 and 100% for fiscal years 2013 and 2012.

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

The financial reports of SERS' Health Care and Medicare B plans are included in its *Comprehensive Annual Financial Report*. The report can be obtained on SERS' website at [www.ohsers.org](http://www.ohsers.org) under *Employers/Audit Resources*.

**State Teachers Retirement System of Ohio**

Plan Description

STRS Ohio administers a pension plan that is comprised of: a Defined Benefit Plan; a self-directed Defined Contribution Plan and a Combined Plan that is a hybrid of the Defined Benefit and the Defined Contribution Plan.

Ohio law authorized STRS Ohio to offer a cost-sharing, multiple-employer health care plan. STRS Ohio provides access to health care coverage to eligible retirees who participated in the Defined Benefit or Combined Plans. Coverage under the current program includes hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums.

Pursuant to 3307 of the Revised Code, the Retirement Board has discretionary authority over how much, if any, of the associated health care costs will be absorbed by STRS Ohio. 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.

STRS Ohio issues a stand-alone financial report. Interested parties can view the most recent *Comprehensive Annual Financial Report* by visiting [www.strsoh.org](http://www.strsoh.org) or by requesting a copy by calling toll-free 1-888-227-7877.

Funding Policy

Under Ohio law, funding for post-employment health care may be deducted from employer contributions. Of the 14% employer contributions rate, 1% of covered payroll was allocated to post-employment health care for the year ended June 30, 2014, 2013 and 2012. The 14% employer contribution rate is the maximum rate established under Ohio law. The District contributions for the years ended June 30, 2014, 2013, and 2012 were \$140,678, \$140,241, and \$150,763, 83% has been contributed for fiscal year 2014 and 100% for fiscal years 2013 and 2012.

**Note 11 – Contingent Liabilities**

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**Grants**

The District receives significant financial assistance from numerous federal, state and local agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the

**Southwest Local School District**  
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grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds.

However, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the District as of June 30, 2014.

**Litigation**

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

**Note 12 – Jointly Governed Organizations**

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Hamilton/Clermont Cooperative Association (HCAA) - The Hamilton/Clermont Cooperative Association is a distinct political subdivision of the State of Ohio operated under the direction of a Board consisting of one representative from each of the twenty-four participating school districts' elected boards, which possesses its own budgeting and taxing authority. To obtain financial information write to the Hamilton Clermont Cooperative Association, Don Rabe, who serves as Treasurer, at 11083 Hamilton Avenue, Cincinnati, Ohio 45231.

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

**Note 13 – Risk Management**

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

Coverages provided by Indiana Insurance are as follows:

Building and Contents-replacement cost (\$10,000 deductible)	\$80,296,200
Inland Marine Coverage (\$1,000 deductible)	
Musical Instruments (\$250 deductible)	50,650
Lawn Equipment (\$500 deductible)	7,000
Automobile Liability (\$1,000 deductible)	1,000,000
Uninsured Motorists (\$1,000 deductible)	1,000,000
General Liability	
Per occurrence	1,000,000
Aggregate	2,000,000
Umbrella Liability	10,000,000

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

**Note 14 – Set-Asides**

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

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

	Capital Acquisition
Set-aside Reserve Balance as of June 30, 2013	\$0
Current Year Set-aside Requirement	590,650
Qualified Disbursements	<u>(630,504)</u>
Set-aside Reserve Balance as of June 30, 2014	<u>(\$39,854)</u>
Restricted Cash as of June 30, 2014	<u>\$0</u>

Expenditures for capital activity during the year totaled \$630,504 above, which exceeded the required set-aside and the reserve balance. Although the District had qualifying disbursements during the year that reduced the Capital Acquisition set-aside amounts to below zero, these extra amounts may not be used to reduce the set-aside requirements of future years. Negative amounts are therefore not presented as being carried forward to the next fiscal year.

**Note 15 - Interfund Transactions**

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

	Transfers	
	In	Out
General Fund	<u>\$0</u>	<u>\$212,269</u>
Debt Service Fund	<u>212,269</u>	<u>0</u>
Total All Funds	<u>\$212,269</u>	<u>\$212,269</u>

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

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**Note 16 – Accountability**

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**Accountability**

The following funds had a deficit in fund balance:

	<u>Deficit</u>
Other Governmental Funds:	
Title VI-B	\$103,372
Title I	126,137
Improving Teacher Quality	17,036

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

**Note 17 – Fund Balances**

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

<u>Fund Balances</u>	<u>General</u>	<u>Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total</u>
<b>Restricted for:</b>				
Other Grants	\$0	\$0	\$34,210	\$34,210
Student Activities	0	0	47,738	47,738
Auxiliary Services	0	0	84,468	84,468
Vocational Education	0	0	75	75
Education Jobs	0	0	1,431	1,431
Food Service	0	0	87,963	87,963
Debt Service	0	3,533,432	0	3,533,432
Building	0	0	4,163	4,163
Permanent Improvement	0	0	176,027	176,027
<b>Total Restricted</b>	<u>0</u>	<u>3,533,432</u>	<u>436,075</u>	<u>3,969,507</u>
<b>Assigned to:</b>				
Encumbrances	335,396	0	0	335,396
Public School	91,488	0	0	91,488
<b>Total Assigned</b>	<u>426,884</u>	<u>0</u>	<u>0</u>	<u>426,884</u>
<b>Unassigned (Deficit)</b>	<u>7,303,300</u>	<u>0</u>	<u>(246,545)</u>	<u>7,056,755</u>
<b>Total Fund Balance</b>	<u>\$7,730,184</u>	<u>3,533,432</u>	<u>\$189,530</u>	<u>\$11,453,146</u>

**Note 18 – Change in Accounting Principles**

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The District adopted the provisions of GASB Statement Number 65, *Items Previously Reported as Assets and Liabilities*. GASB Statement Number 65 establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The provisions of this

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

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Statement are effective for financial statements for periods beginning after December 15, 2012 and have been implemented by the District.

**Note 19 – Prior Period Adjustment**

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In prior periods, the District had reported assets related to bond issuance costs in the Governmental Activities entity-wide financial statements. GASB Statement Number 65, *Items Previously Reported as Assets and Liabilities*, has reclassified debt issuance costs as an expense in the period incurred rather than amortizing the costs over the life of the debt. The implementation of GASB Statement Number 65 requires a restatement of prior period's net position as follows:

	<u>Governmental Activities</u>
Net Position - June 30, 2013	\$11,322,776
Prior Period Adjustment:	
Bond Issuance Costs	(153,254)
Restated Net Position - June 30, 2013	<u><u>\$11,169,522</u></u>

# **REQUIRED SUPPLEMENTARY INFORMATION**



Southwest Local School District  
Schedule of Revenues, Expenditures and Changes in Fund Balance  
Budget and Actual (Non-GAAP Budgetary Basis)  
For the Fiscal Year Ended June 30, 2014

	General Fund			
	Original Budget	Final Budget	Actual	Variance from Final Budget
Revenues:				
Taxes	\$14,139,753	\$14,139,753	\$14,484,545	\$344,792
Revenue in lieu of taxes	338,345	338,345	346,595	8,250
Tuition and Fees	355,465	355,465	364,133	8,668
Investment Earnings	13,616	13,616	13,948	332
Intergovernmental	15,484,102	15,484,102	15,861,675	377,573
Extracurricular Activities	73,492	73,492	75,284	1,792
Other Revenues	95,227	95,227	97,549	2,322
Total Revenues	30,500,000	30,500,000	31,243,729	743,729
Expenditures:				
Current:				
Instruction:				
Regular	15,111,420	15,111,420	14,659,788	451,632
Special	4,378,999	4,378,999	4,248,125	130,874
Adult/Continuing	13,903	13,903	13,487	416
Other	820,657	820,657	796,130	24,527
Support Services:				
Pupil	1,522,560	1,522,560	1,477,056	45,504
Instructional Staff	357,885	357,885	347,189	10,696
General Administration	36,130	36,130	35,050	1,080
School Administration	2,535,589	2,535,589	2,459,808	75,781
Fiscal	982,176	982,176	952,822	29,354
Business	0	0	0	0
Operations and Maintenance	2,819,844	2,819,844	2,735,568	84,276
Pupil Transportation	1,279,165	1,279,165	1,240,935	38,230
Central	70,975	70,975	68,854	2,121
Extracurricular Activities	546,666	546,666	530,328	16,338
Debt Service:				
Principal Retirement	395,000	407,169	395,000	12,169
Interest and Fiscal Charges	19,274	7,105	6,893	212
Total Expenditures	30,890,243	30,890,243	29,967,033	923,210
Excess of Revenues Over (Under) Expenditures	(390,243)	(390,243)	1,276,696	1,666,939
Other financing sources (uses):				
Transfers (Out)	(218,808)	(218,808)	(212,269)	6,539
Total Other Financing Sources (Uses)	(218,808)	(218,808)	(212,269)	6,539
Net Change in Fund Balance	(609,051)	(609,051)	1,064,427	1,673,478
Fund Balance Beginning of Year (includes prior year encumbrances appropriated)	3,560,031	3,560,031	3,560,031	0
Fund Balance End of Year	\$2,950,980	\$2,950,980	\$4,624,458	\$1,673,478

See accompanying notes to the required supplementary information.

**Southwest Local School District**  
**Notes to the Required Supplementary Information**  
**For The Year Ended June 30, 2014**

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**Note 1 – Budgetary Process**

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

The certificate of estimated resources may be amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The amounts reported as the original budgeted amounts on the budgetary statements reflect the amounts on the certificate of estimated resources when the original appropriations were adopted. The amounts reported as the final budgeted amounts on the budgetary statements reflect the amounts on the final amended certificate of estimated resources issued during the fiscal year 2014.

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

While the District is reporting financial position, results of operations and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual (Non-GAAP Budgetary Basis) presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and GAAP basis are as follows:

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

**Southwest Local School District**  
**Notes to the Required Supplementary Information**  
**For The Year Ended June 30, 2014**

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

**Net Change in Fund Balance**

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	<u>General</u>
GAAP Basis	\$2,217,566
Revenue Accruals	(927,641)
Expenditure Accruals	137,733
Encumbrances	(358,130)
Funds Budgeted Elsewhere	<u>(5,101)</u>
Budget Basis	<u><u>\$1,064,427</u></u>

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**SOUTHWEST LOCAL SCHOOL DISTRICT  
HAMILTON COUNTY**

**SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES  
FOR THE YEAR ENDED JUNE 30, 2014**

Federal Grant/ Pass Through Grantor Program Title	Federal CFDA Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
<b>U.S. DEPARTMENT OF AGRICULTURE</b>					
Passed Through Ohio Department of Education:					
Nutrition Cluster:					
School Breakfast Program	10.553	\$151,034	0	\$151,034	0
National School Lunch Program	10.555	537,931	89,963	537,931	89,963
State Administrative Expenses for Child Nutrition	10.560	3,500	0	3,500	0
Total Nutrition Cluster		<u>692,465</u>	<u>89,963</u>	<u>692,465</u>	<u>89,963</u>
Total U.S. Department of Agriculture		<u>692,465</u>	<u>89,963</u>	<u>692,465</u>	<u>89,963</u>
<b>U.S. DEPARTMENT OF EDUCATION</b>					
Passed Through Ohio Department of Education:					
Special Education Cluster:					
Special Education Grants to States	84.027	740,622	0	740,689	0
Special Education Preschool Grant	84.173	18,589	0	18,589	0
Total Special Education Cluster		<u>759,211</u>	<u>0</u>	<u>759,278</u>	<u>0</u>
Title I	84.010	807,728	0	809,817	0
Improving Teaching Quality State Grants	84.367	106,257	0	107,523	0
Race to the Top	84.395	2,100	0	2,100	0
Total Department of Education		<u>916,085</u>	<u>0</u>	<u>919,440</u>	<u>0</u>
Total Federal Assistance		<u>\$2,367,761</u>	<u>\$89,963</u>	<u>\$2,371,183</u>	<u>\$89,963</u>

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

**SOUTHWEST LOCAL SCHOOL DISTRICT  
HAMILTON COUNTY**

**NOTES TO THE FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE  
FISCAL YEAR ENDED JUNE 30, 2014**

**NOTE A - SIGNIFICANT ACCOUNTING POLICIES**

The accompanying Federal Awards Expenditures Schedule (the Schedule) reports the federal award programs' receipts and disbursements for Southwest Local School District (the District). The schedule has been prepared on the cash basis of accounting.

**NOTE B - 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 C – FOOD DONATION PROGRAM**

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



# Dave Yost • Auditor of State

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

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

To the Board of Education:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Southwest Local School District, Hamilton County, Ohio, (the District) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated March 4, 2015, wherein we noted the District adopted the provisions of Governmental Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities*.

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

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

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

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

### ***Compliance and Other Matters***

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

Corporate Centre of Blue Ash, 11117 Kenwood Road, Blue Ash, Ohio 45242  
Phone: 513-361-8550 or 800-368-7419 Fax: 513-361-8577

[www.ohioauditor.gov](http://www.ohioauditor.gov)

***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 communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "D" and "Y".

**Dave Yost**  
Auditor of State

Columbus, Ohio

March 4, 2015



# Dave Yost • Auditor of State

## INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO THE MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

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

To the Board of Education:

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

We have audited the Southwest Local School District Hamilton County, Ohio, (the District) compliance with the applicable requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that could directly and materially affect the Southwest Local School District's major federal program for the year ended June 30, 2014. The *Summary of Auditor's Results* in the accompanying schedule of findings identifies the District's major federal program.

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

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

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

Our responsibility is to opine on the District's compliance for the District's major federal program based on our audit of the applicable compliance requirements referred to above. Our compliance audit followed auditing standards generally accepted in the United States of America; the standards for financial audits included in the Comptroller General of the United States' *Government Auditing Standards*; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. These standards and OMB Circular A-133 require us to plan and perform the audit to reasonably assure whether noncompliance with the applicable compliance requirements referred to above that could directly and materially affect a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

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

In our opinion, the Southwest Local School District complied, in all material respects with the compliance requirements referred to above that could directly and materially affect its major federal program for the year ended June 30, 2014.

***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 OMB Circular A-133, but not to the extent needed to opine on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the District's internal control over compliance.

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

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

This report only describes the scope of our internal control compliance tests and the results of this testing based on OMB Circular A-133 requirements. Accordingly, this report is not suitable for any other purpose.



**Dave Yost**  
Auditor of State

Columbus, Ohio

March 4, 2015

**SOUTHWEST LOCAL SCHOOL DISTRICT  
HAMILTON COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
JUNE 30, 2014**

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

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unmodified
<i>(d)(1)(ii)</i>	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(iii)</i>	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
<i>(d)(1)(iv)</i>	Were there any material internal control weaknesses reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any significant deficiencies in internal control reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unmodified
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510(a)?	No
<i>(d)(1)(vii)</i>	Major Programs (list):	Title I – 84.010
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	Yes

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

None

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

None

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# Dave Yost • Auditor of State

**SOUTHWEST LOCAL SCHOOL DISTRICT**

**HAMILTON COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
MARCH 19, 2015**