



Dave Yost • Auditor of State

**NORTHWEST LOCAL SCHOOL DISTRICT
SCIOTO COUNTY**

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Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Northwest Local School District
Scioto County
800 Mohawk Drive
McDermott, Ohio 45652

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Northwest Local School District, Scioto County, Ohio (the School District), as of and for the year ended June 30, 2012, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Northwest Local School District, Scioto County, Ohio, as of June 30, 2012, and the respective changes in financial position thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 15, 2013, on our consideration of the School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

As discussed in Note 21 to the basic financial statements, the School District was placed in Fiscal Caution by the Ohio Department of Education on August 10, 2012. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis*, 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 have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any other assurance.

We conducted our audit to opine on the financial statements that collectively comprise the School District's basic financial statements taken as a whole. The Federal Awards Receipts and Expenditures Schedule provides additional information required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations* and is not a required part of the basic financial statements. The Federal Awards Receipts and Expenditures Schedule is management's responsibility and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. This schedule was subject to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling this information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, in accordance with auditing standards generally accepted in the United States of America. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Dave Yost
Auditor of State

February 15, 2013

Northwest Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2012
Unaudited

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Northwest Local School District's (the School District) discussion and analysis of the annual financial report provides a review of the financial performance for the fiscal year ended June 30, 2012. The intent of this discussion and analysis is to look at the School District's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the School District's financial performance.

FINANCIAL HIGHLIGHTS

- The School District's assets exceeded its liabilities at June 30, 2012 by \$21,342,728.
- The School District's net assets of governmental activities decreased \$1,137,834.
- General revenues accounted for \$14,946,570 or 81 percent of all revenues. Program specific revenues in the form of charges for services and sales, and operating grants and contributions accounted for \$3,456,746 or 19 percent of total revenues of \$18,403,316.
- The School District had \$19,541,150 in expenses related to governmental activities; \$3,456,746 of these expenses were offset by program specific charges for services and sales, and operating grants and contributions.

USING THIS ANNUAL FINANCIAL REPORT

This annual report consists of a series of financial statements. These statements are presented so that the reader can understand the School District's financial situation as a whole and also give a detailed view of the School District's financial activities.

The statement of net assets and statement of activities provide information about the activities of the School District as a whole and present a longer-term view of the School District's 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 the amount of funds available for future spending. The fund financial statements also look at the School District's most significant funds with all other non-major funds presented in total in one column.

REPORTING THE SCHOOL DISTRICT AS A WHOLE

The analysis of the School District as a whole begins with the statement of net assets and the statement of activities. These statements provide information that will help the reader to determine whether the School District is financially improving or declining as a result of the year's financial activities. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by private sector companies. All current year revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the School District's net assets and changes to those assets. This change informs the reader whether the School District's financial position, as a whole, has improved or diminished. In evaluating the overall financial health, the user of these financial statements needs to take into account non-financial factors that also impact the School District's financial well-being. Some of these factors include the condition of capital assets and required educational support services to be provided.

Northwest Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2012
Unaudited

In the statement of net assets and the statement of activities, the School District has only one kind of activity.

- Governmental activities. Most of the School District's programs and services are reported here including instruction and support services.

REPORTING THE SCHOOL DISTRICT'S MOST SIGNIFICANT FUNDS

Fund Financial Statements

The analysis of the School District's funds begins on page 7. Fund financial statements provide detailed information about the School District's major funds – not the School District as a whole. Some funds are required by State law and bond covenants. Other funds may be established by the Treasurer with approval from the Board to help control, manage and report money received for a particular purpose or to show that the School District is meeting legal responsibilities for use of grants. The School District's major funds are the General Fund and the Bond Retirement Fund.

Governmental Funds

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

Fiduciary Funds

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds, and agency funds. Trust funds are used to account for assets held by the School District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the School District's own programs. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. In accordance with GASB 34, fiduciary funds are not included in the government-wide statements.

The School District's fiduciary funds are an agency fund, which is used to maintain financial activity of the School District's student managed activities, and a private purpose trust fund, which is used to maintain the financial activity of the School District's scholarship funds.

Northwest Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2012
Unaudited

THE SCHOOL DISTRICT AS A WHOLE

As stated previously, the statement of net assets provides the perspective of the School District as a whole. Table 1 provides a summary of the School District's net assets for 2012 compared to 2011.

Table 1
Net Assets

	2012	2011
Assets:		
Current and Other Assets	\$4,727,844	\$5,263,824
Capital Assets, Net	24,320,899	25,374,988
Total Assets	29,048,743	30,638,812
Liabilities:		
Current and Other Liabilities	3,976,121	3,982,837
Long-Term Liabilities	3,729,894	4,175,413
Total Liabilities	7,706,015	8,158,250
Net Assets:		
Invested in Capital Assets, Net of Related Debt	22,456,738	23,214,435
Restricted	1,191,363	1,411,137
Unrestricted (Deficit)	(2,305,373)	(2,145,010)
Total Net Assets	\$21,342,728	\$22,480,562

Total net assets of the School District as a whole decreased \$1,137,834. Current and other assets decreased \$535,980 due primarily to a decrease in cash balances, which was partially offset by an increase in intergovernmental receivables which was a result of timing of draws of federal funds. Capital assets decreased \$1,054,089 which was due to current year depreciation and deletions exceeding current year additions. Current and other liabilities remaining fairly consistent, having decreased by only \$6,716. Long-term liabilities decreased \$445,519 due mainly to principal payments on long-term debt.

Northwest Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2012
Unaudited

Table 2 shows the changes in net assets for the fiscal years ended June 30, 2012 and 2011.

Table 2
Change in Net Assets

	2012	2011
Revenues		
Program Revenues:		
Charges for Services and Sales	\$496,791	\$497,127
Operating Grants and Contributions	2,959,955	3,321,315
Total Program Revenues	3,456,746	3,818,442
General Revenues:		
Taxes Levied for:		
General Purposes	1,846,129	1,788,956
Debt Service	33,088	66,286
Capital Maintenance	46,047	32,163
Grants and Entitlements, Not Restricted to Specific Programs	12,965,373	12,238,031
Gain on Sale of Capital Assets	0	887
Insurance Recoveries	51,019	0
Investment Earnings	1,898	792
Miscellaneous	3,016	2,807
Total General Revenues	14,946,570	14,129,922
Total Revenues	18,403,316	17,948,364
Program Expenses:		
Instruction:		
Regular	8,722,338	8,398,672
Special	1,391,500	1,352,730
Vocational	86,061	92,164
Other	637,784	600,426
Support Services:		
Pupils	506,025	878,316
Instructional Staff	1,191,824	1,154,309
Board of Education	27,020	38,443
Administration	1,293,131	1,261,804
Fiscal	269,766	319,046
Operation and Maintenance of Plant	2,249,456	2,361,566
Pupil Transportation	1,839,696	1,867,096
Central	6,226	22,483
Operation of Non-Instructional Services	877,541	805,163
Extracurricular Activities	283,172	302,584
Interest and Fiscal Charges	159,610	186,990
Total Expenses	19,541,150	19,641,792
Change in Net Assets	(1,137,834)	(1,693,428)
Net Assets at Beginning of Year	22,480,562	24,173,990
Net Assets at End of Year	\$21,342,728	\$22,480,562

Northwest Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2012
Unaudited

Grant and entitlements not restricted to specific programs increased \$727,342 due primarily to an increase in State foundation funding. Operating grants and contributions decreased \$361,360 due primarily to a reduction in stimulus and other federal program funding. Taxes decreased as a result the reduction of a levy for debt service purposes.

Instruction expenses increased due mainly to an increase in foundation funding. Pupils support services decreased as a result of a decrease in federal funding.

Governmental Activities

Grants and entitlements, not restricted to specific programs comprised 70 percent of revenue for governmental activities, while operating grants and contributions comprised 16 percent of revenue for governmental activities, and property taxes comprised 10 percent of revenue for governmental activities of the School District for fiscal year 2012.

As indicated by governmental program expenses, instruction is emphasized. Regular instruction comprised 45 percent of governmental program expenses while special instruction comprised 7 percent of governmental expenses. Operation and maintenance of plant and pupil transportation expenses comprised 12 percent and 9 percent, respectively.

The statement of activities shows the cost of program services and the charges for services and sales, grants and contributions 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 unrestricted State entitlements and other general revenues.

Table 3
 Total and Net Cost of Program Services

	Total Cost of Services		Net Cost of Services	
	2012	2011	2012	2011
Instruction	\$10,837,683	\$10,443,992	\$8,997,259	\$8,807,445
Support Services	7,383,144	7,903,063	6,657,216	6,593,548
Operation of Non-Instructional Services	877,541	805,163	46,131	(8,906)
Extracurricular Activities	283,172	302,584	224,188	244,273
Interest and Fiscal Charges	159,610	186,990	159,610	186,990
Total Expenses	\$19,541,150	\$19,641,792	\$16,084,404	\$15,823,350

THE SCHOOL DISTRICT'S FUNDS

Governmental funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues and other financing sources of \$18,487,694 and expenditures and other financing uses of \$19,022,080. The net change in fund balance for the year was most significant in the General Fund.

The fund balance of the General Fund decreased in the amount of \$409,529. This was a result of expenditures in excess of revenues.

The fund balance of the Bond Retirement Fund decreased in the amount of \$218,517. This was a result of expenditures in excess of revenues.

Northwest Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2012
Unaudited

General Fund Budgeting Highlights

The School District's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances.

During 2012, there were several revisions to the General Fund budget. In part, these revisions increased appropriations by \$680,756 as a result of increases for instructional salaries and benefits. These revisions also increased estimated resources by \$540,628 as a result of increased foundation funding. The Treasurer has been given the authority by the Board of Education to make line item adjustments within the budget. The General Fund's ending unobligated cash balance was \$749,039.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal year 2012, the School District had \$24,320,899 invested in its capital assets. Table 4 shows the fiscal year 2012 balances compared to 2011.

Table 4
Capital Assets
(Net of Accumulated Depreciation)

	<u>2012</u>	<u>2011</u>
Land	\$246,624	\$246,624
Land Improvements	180,797	197,744
Buildings and Improvements	22,627,381	23,624,128
Furniture and Equipment	784,789	783,304
Vehicles	375,379	416,689
Textbooks	105,929	106,499
Totals	<u>\$24,320,899</u>	<u>\$25,374,988</u>

Changes in capital assets from the prior year resulted from current year additions, deletions and depreciation expense. See Note 7 to the basic financial statements for more detailed information related to capital assets.

Debt

At June 30, 2012, the School District had School Facilities General Obligations Refunding Bonds outstanding of \$735,154. The bonds were issued for school construction. The School District also had capital lease obligations outstanding of \$1,617,000. See Note 12 to the basic financial statements for more detailed information regarding debt.

CONTACTING THE SCHOOL DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, creditors, and investors with a general overview of the School District's financial condition and to show the School District's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Dianna Reedy, Treasurer, Northwest Local School District, 800 Mohawk Drive, McDermott, Ohio 45652.

Northwest Local School District
Statement of Net Assets
As of June 30, 2012

	Governmental Activities
Assets:	
Equity in Pooled Cash and Cash Equivalents	\$2,043,111
Intergovernmental Receivable	257,563
Taxes Receivable	2,427,170
Nondepreciable Capital Assets	246,624
Depreciable Capital Assets, net	24,074,275
<i>Total Assets</i>	29,048,743
Liabilities:	
Accounts Payable	9,997
Accrued Wages and Benefits	1,876,364
Intergovernmental Payable	383,391
Deferred Revenue	1,706,369
Long-Term Liabilities:	
Due Within One Year	561,470
Due in More Than One Year	3,168,424
<i>Total Liabilities</i>	7,706,015
Net Assets:	
Invested in Capital Assets, Net of Related Debt	22,456,738
Restricted for Debt Service	817,973
Restricted for Other Purposes	286,161
Restricted for Set-Asides	87,229
Unrestricted (Deficit)	(2,305,373)
<i>Total Net Assets</i>	\$21,342,728

The notes to the basic financial statements are an integral part of this statement

Northwest Local School District
Statement of Activities
For the Fiscal Year Ended June 30, 2012

	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets
		Charges for Services and Sales	Operating Grants and Contributions	
Governmental Activities:				
Instruction:				
Regular	\$8,722,338	\$86,410	\$1,664,864	(\$6,971,064)
Special	1,391,500	9,847	74,063	(1,307,590)
Vocational	86,061	618	0	(85,443)
Other	637,784	4,622	0	(633,162)
Support Services:				
Pupils	506,025	121,581	4,845	(379,599)
Instructional Staff	1,191,824	5,035	496,731	(690,058)
Board of Education	27,020	196	0	(26,824)
Administration	1,293,131	8,973	50,853	(1,233,305)
Fiscal	269,766	1,935	0	(267,831)
Operation and Maintenance of Plant	2,249,456	12,827	4,567	(2,232,062)
Pupil Transportation	1,839,696	12,967	0	(1,826,729)
Central	6,226	18	5,400	(808)
Operation of Non-Instructional Services	877,541	172,778	658,632	(46,131)
Extracurricular Activities	283,172	58,984	0	(224,188)
Interest and Fiscal Charges	159,610	0	0	(159,610)
<i>Total Governmental Activities</i>	<u>\$19,541,150</u>	<u>\$496,791</u>	<u>\$2,959,955</u>	(16,084,404)

General Revenues:

Property Taxes Levied for:	
General Purposes	1,846,129
Capital Maintenance	33,088
Debt Service	46,047
Grants and Entitlements not	
Restricted for Specific Programs	12,965,373
Insurance Recoveries	51,019
Investment Earnings	1,898
Miscellaneous	3,016
<i>Total General Revenues</i>	<u>14,946,570</u>
<i>Change in Net Assets</i>	(1,137,834)
<i>Net Assets Beginning of Year</i>	<u>22,480,562</u>
<i>Net Assets End of Year</i>	<u>\$21,342,728</u>

The notes to the basic financial statements are an integral part of this statement

Northwest Local School District
Balance Sheet
Governmental Funds
As of June 30, 2012

	General Fund	Bond Retirement Fund	Other Governmental Funds	Total Governmental Funds
Assets:				
Equity in Pooled Cash and Cash Equivalents	\$850,063	\$800,736	\$305,083	\$1,955,882
Interfund Receivable	169,578	0	0	169,578
Intergovernmental Receivable	40,294	0	217,269	257,563
Taxes Receivable	2,327,262	58,063	41,845	2,427,170
Restricted Assets:				
Equity in Pooled Cash and Cash Equivalents	87,229	0	0	87,229
<i>Total Assets</i>	<u>\$3,474,426</u>	<u>\$858,799</u>	<u>\$564,197</u>	<u>\$4,897,422</u>
Liabilities:				
Accounts Payable	\$9,960	\$0	\$37	\$9,997
Accrued Wages and Benefits	1,543,912	0	332,452	1,876,364
Interfund Payable	0	0	169,578	169,578
Intergovernmental Payable	351,567	0	31,824	383,391
Deferred Revenue	2,210,475	54,143	73,575	2,338,193
<i>Total Liabilities</i>	4,115,914	54,143	607,466	4,777,523
Fund Balances:				
Restricted	0	804,656	282,842	1,087,498
Committed	73,918	0	0	73,918
Assigned	86,811	0	0	86,811
Unassigned	(802,217)	0	(326,111)	(1,128,328)
<i>Total Fund Balances</i>	<u>(641,488)</u>	<u>804,656</u>	<u>(43,269)</u>	<u>119,899</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$3,474,426</u>	<u>\$858,799</u>	<u>\$564,197</u>	<u>\$4,897,422</u>

The notes to the basic financial statements are an integral part of this statement.

Northwest Local School District
*Reconciliation of Total Governmental Fund Balances to
 Net Assets of Governmental Activities
 As of June 30, 2012*

Total Governmental Fund Balances \$119,899

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

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. 24,320,899

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

Intergovernmental	74,749	
Taxes	557,075	
Total	631,824	631,824

Long-term liabilities, including bonds and related liabilities, capital leases, and the long-term portion of compensated absences, are not due and payable in the current period and therefore are not reported in the funds.

Compensated Absences	(1,377,740)	
Capital Lease Obligations	(1,617,000)	
Capital Appreciation Bonds	(735,154)	
Total	(3,729,894)	(3,729,894)

Net Assets of Governmental Activities \$21,342,728

The notes to the basic financial statements are an integral part of this statement

Northwest Local School District
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2012

	General Fund	Bond Retirement Fund	Other Governmental Funds	Total Governmental Funds
Revenues:				
Property Taxes	\$1,789,614	\$44,651	\$32,085	\$1,866,350
Intergovernmental	12,952,533	8,290	3,016,243	15,977,066
Interest	1,898	0	0	1,898
Tuition and Fees	21,332	0	0	21,332
Rent	91,809	0	0	91,809
Extracurricular Activities	118,844	0	90,828	209,672
Gifts and Donations	2,054	0	0	2,054
Customer Sales and Services	0	0	173,978	173,978
Miscellaneous	0	0	3,016	3,016
<i>Total Revenues</i>	14,978,084	52,941	3,316,150	18,347,175
Expenditures:				
Current:				
Instruction:				
Regular	6,420,699	0	1,692,684	8,113,383
Special	1,346,583	0	32,080	1,378,663
Vocational	84,266	0	0	84,266
Other	637,784	0	0	637,784
Support Services:				
Pupils	547,883	0	2,832	550,715
Instructional Staff	692,345	0	491,387	1,183,732
Board of Education	27,020	0	0	27,020
Administration	1,227,584	0	51,023	1,278,607
Fiscal	280,926	1,458	1,046	283,430
Operation and Maintenance of Plant	1,614,456	0	87,736	1,702,192
Pupil Transportation	1,783,063	0	0	1,783,063
Central	2,428	0	3,798	6,226
Operation of Non-Instructional Services	0	0	876,154	876,154
Extracurricular Activities	192,563	0	67,248	259,811
Capital Outlay	198,619	0	6,002	204,621
Debt Service:				
Principal	207,000	270,000	0	477,000
Interest	85,913	0	0	85,913
<i>Total Expenditures</i>	15,349,132	271,458	3,311,990	18,932,580
<i>Excess of Revenues Over (Under) Expenditures</i>	(371,048)	(218,517)	4,160	(585,405)
Other Financing Sources and Uses:				
Transfers In	0	0	89,500	89,500
Insurance Recoveries	51,019	0	0	51,019
Transfers Out	(89,500)	0	0	(89,500)
<i>Total Other Financing Sources and Uses</i>	(38,481)	0	89,500	51,019
<i>Net Change in Fund Balances</i>	(409,529)	(218,517)	93,660	(534,386)
<i>Fund Balance (Deficit) at Beginning of Year</i>	(231,959)	1,023,173	(136,929)	654,285
<i>Fund Balance (Deficit) at End of Year</i>	(641,488)	\$804,656	(\$43,269)	\$119,899

The notes to the basic financial statements are an integral part of this statement.

Northwest Local School District
*Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For the Fiscal Year Ended June 30, 2012*

Net Change in Fund Balances - Total Governmental Funds (\$534,386)

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

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

Capital Asset Additions	204,621	
Current Year Depreciation	(1,258,559)	
Total	(1,053,938)	(1,053,938)

Governmental funds only report the disposal of assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal. (151)

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

Intergovernmental	(53,792)	
Taxes	58,914	
Total	5,122	5,122

Repayments of bond principal are expenditures in the governmental funds, but the repayment reduces liabilities in the statement of net assets and does not result in an expense in the statement of activities. 270,000

Repayments of capital lease obligations are expenditures in the governmental funds, but the repayment reduces liabilities in the statement of net assets and does not result in an expense in the statement of activities. 207,000

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.

Decrease in Compensated Absences	42,216	
Increase for Accretion	(73,697)	
Total	(31,481)	(31,481)

Net Change in Net Assets of Governmental Activities (\$1,137,834)

The notes to the basic financial statements are an integral part of this statement

Northwest Local School District
*Statement of Revenues, Expenditures and Change
in Fund Balance - Budget and Actual (Budgetary Basis)*
General Fund
For the Fiscal Year Ended June 30, 2012

	Budgeted Amounts		Actual	Variance with Final Budget: Positive (Negative)
	Original	Final		
Total Revenues and Other Financing Sources	\$14,486,873	\$15,027,501	\$15,028,119	\$618
Total Expenditures and Other Financing Uses	15,053,784	15,734,540	15,734,540	0
<i>Net Change in Fund Balance</i>	(566,911)	(707,039)	(706,421)	618
<i>Fund Balance at Beginning of Year</i>	1,370,151	1,370,151	1,370,151	0
<i>Prior Year Encumbrances Appropriated</i>	85,309	85,309	85,309	0
<i>Fund Balance at End of Year</i>	<u>\$888,549</u>	<u>\$748,421</u>	<u>\$749,039</u>	<u>\$618</u>

The notes to the basic financial statements are an integral part of this statement.

Northwest Local School District
Statement of Fiduciary Net Assets
Fiduciary Funds
As of June 30, 2012

	Private Purpose Trust Fund	Agency Fund
Assets:		
Equity in Pooled Cash and Cash Equivalents	\$37,648	\$26,216
<i>Total Assets</i>	\$37,648	\$26,216
Liabilities:		
Undistributed Monies		\$26,216
<i>Total Liabilities</i>		\$26,216
Net Assets:		
Held in Trust for Scholarships	\$37,648	
<i>Total Net Assets</i>	\$37,648	

The notes to the basic financial statements are an integral part of this statement.

Northwest Local School District
Statement of Changes in Fiduciary Net Assets
Fiduciary Fund
For the Fiscal Year Ended June 30, 2012

	<u>Private Purpose Trust Fund</u>
Additions:	
Gifts and Contributions	\$4,050
Interest	15
	<hr/>
<i>Total Additions</i>	4,065
Deductions:	
Payments in Accordance with Trust Agreements	5,250
	<hr/>
<i>Total Deductions</i>	5,250
	<hr/>
<i>Change in Net Assets</i>	(1,185)
	<hr/>
<i>Net Assets Beginning of Year</i>	38,833
	<hr/>
<i>Net Assets End of Year</i>	<u><u>\$37,648</u></u>

The notes to the basic financial statements are an integral part of this statement.

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Northwest Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

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

The School District was established in 1957 through the consolidation of existing land areas and school districts. The School District serves an area of approximately 156 square miles. It is located in Scioto County, and includes all of the Villages of Rarden and Otway and portions of Brush, Rush, Union, Morgan and Rarden Townships. It is staffed by 85 non-certificated and administrative employees, and 107 certificated full-time teaching personnel who provide services to 1,709 students and other community members. The School District currently operates 4 instructional buildings, 1 administrative building, and 1 garage.

Reporting Entity:

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

Component units are legally separate organizations for which the School District is financially accountable. The School District is financially accountable for an organization if the School District appoints a voting majority of the organization's governing board and (1) the School District is able to significantly influence the programs or services performed or provided by the organization; or (2) the School District is legally entitled to or can otherwise access the organization's resources; the School District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the School District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the School District in that the School District approves the budget, the issuance of debt, or the levying of taxes. The School District has no component units.

The following organizations which perform activities within the School District's boundaries for the benefit of its residents are excluded from the accompanying financial statements because the School District is not financially accountable for these organizations nor are they fiscally dependent on the School District:

- * Parent Teacher Organizations
- * Booster Associations
- * Alumni Associations

The School District is associated with three organizations, two of which are defined as jointly governed organizations and one as a public entity shared risk pool. These organizations are the South Central Ohio Computer Association, the Coalition of Rural and Appalachian Schools, and the Scioto County Schools Council. These organizations are presented in Notes 14 and 15 to the basic financial statements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

A. Basis of Presentation

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

Government-wide Financial Statements

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

The statement of net assets presents the financial condition of the governmental activities of the School District at year end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the School District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants 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 School District. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the School District.

Fund Financial Statements

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

B. Fund Accounting

The School District's accounts are maintained on the basis of funds, each of which is considered a separate accounting entity. Fund accounting is designed to demonstrate legal compliance and to aid management by segregating transactions related to specific School District functions or activities. The operation of each fund is accounted for within a separate set of self-balancing accounts.

Governmental Funds

Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purpose for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the School District's major governmental funds:

General Fund

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Bond Retirement Fund

The Bond Retirement Fund is used to account for the accumulation of resources for and the payment of long-term debt principal, interest, and related costs.

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

Fiduciary Funds

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds, and agency funds. Trust funds are used to account for assets held by the School District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the School District's own programs. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. In accordance with GASB 34, fiduciary funds are not included in the government-wide statements.

The School District's fiduciary funds are an agency fund, which is used to maintain financial activity of the School District's student managed activities, and a private purpose trust fund, which is used to maintain the financial activity of the School District's scholarship funds.

C. Measurement Focus

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

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

D. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. The fund financial statements are prepared using either the modified accrual basis of accounting for governmental funds or the accrual basis of accounting for fiduciary funds. Differences in the accrual and modified accrual bases of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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. "Measurable" means the amount of the transaction can be determined and "available" means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the School District, available means expected to be received within 60 days of year-end.

Non-exchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. (See Note 5). Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the School District must provide local resources to be used for a specified purpose, and expenditures requirements, in which the resources are provided to the School District on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

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

Deferred Revenue

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Property taxes for which there is an enforceable legal claim as of June 30, 2012, but which were levied to finance fiscal year 2013 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue. On the governmental fund financial statements, receivables that will not be collected within the available period have also been reported as deferred revenue.

Expenses/Expenditures

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

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable, except for (1) principal and interest on general long-term debt and capital lease obligations, which is recorded when due, (2) the costs of accumulated unpaid vacation, personal leave and sick leave are reported as fund liabilities as payments come due each period upon the occurrence of employee resignations and retirements. Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Budgetary Process

All funds, other than the agency fund, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the appropriation resolution, and the certificate of estimated resources, which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amounts that the Board of Education may appropriate. The appropriation resolution is the Board's authorization to spend resources and set annual limits on expenditures plus encumbrances at a level of control selected by the Board. The legal level of control has been established by the Board of Education at the fund level. The Treasurer maintains budgetary information at the fund and object level and has the authority to allocate appropriations at the function and object level without resolution by the Board.

The certificate of estimated resources may be amended during the fiscal year if projected increases or decreases in revenue are identified by the School District Treasurer. The amounts reported as the original budgeted amounts in the budgetary statement reflect the amounts in the amended certificate in effect when the permanent appropriations were passed. The amounts reported as the final budgeted amounts in the budgetary statement reflect the amounts in the final amended certificate issued during fiscal year 2012.

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

Encumbrances - Encumbrance accounting is utilized by the School District for all funds in the normal course of operations for purchase orders and contract related expenditures. An encumbrance is a reserve on the available spending authority due to a commitment for a future expenditure and does not represent a liability. On the fund financial statements encumbrances outstanding at fiscal year-end are reported as a restriction, commitment, or assignment of fund balance for subsequent year expenditures for governmental funds. A restriction, commitment, or assignment for encumbrances is not reported on the government-wide financial statements. Encumbrances are reported as part of expenditures on a non-GAAP budgetary basis in the statement of revenues, expenditures and changes in fund balances – budget and actual (budgetary basis) presented for the General Fund.

F. Cash and Cash Equivalents

To improve cash management, all cash received by the School District is pooled. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through School District records. Each fund's interest in the pool is presented as equity in pooled cash and cash equivalents on the financial statements.

During fiscal year 2012, the School District invested funds in the State Treasury Asset Reserve of Ohio (STAROhio). STAROhio is an investment pool managed by the State Treasurer's Office that 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 Rule 2a7 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, 2012.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the General Fund during fiscal year 2012 amounted to \$1,898.

Investments of the cash management pool and investments with an original maturity of three months or less at the time they are purchased by the School District are considered to be cash equivalents.

Northwest Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

G. Capital Assets and Depreciation

All capital assets of the School District are general capital assets that are associated with governmental activities. General capital assets result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The School District maintains a capitalization threshold of \$500. The School District does not possess any infrastructure.

Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. The School District does not capitalize interest for capital asset purchases.

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

<u>Description</u>	<u>Estimated Lives</u>
Land Improvements	10-25 Years
Buildings and Improvements	20-25 Years
Furniture and Equipment	10-15 Years
Vehicles	10-15 Years
Textbooks	5-10 Years

H. Interfund Balances

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

I. Compensated Absences

Vacation and personal leave benefits are accrued as a liability as the benefits are earned if the employee's rights to receive compensation are attributable to services already rendered and it is probable that the School District will compensate its employees for the benefits through paid time off or some other means. Sick leave benefits are accrued as a liability using the termination payment method.

The liability includes the employees who are currently eligible to receive severance benefits and those the School District has identified as probable of receiving payment in the future. The School District records an accrual for sick leave to the extent it is probable that benefits will result in termination payments. The accrual amount is based upon an estimate of the School District's past experience of making termination payments.

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

J. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements. In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the funds. However, claims and judgments and special termination benefits that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment in the current year. Bonds and capital leases are recognized as a liability on the fund financial statements when due.

K. Fund Balances

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

Nonspendable – The nonspendable fund balance category includes amounts that cannot be spent because they are not in spendable form, or are legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash. It also includes the long-term amount of loans receivable, as well as property acquired for resale, unless the use of the proceeds from the collection of those receivables or from the sale of those properties is restricted, committed, or assigned.

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

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

Assigned – Amounts in the assigned fund balance classification are intended to be used by the School District for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the General Fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the General Fund, assigned amounts would represent intended uses established by the School District’s Board of Education.

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

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

L. Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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.

M. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consist of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvements of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

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

Of the School District's \$1,191,363 in restricted net assets, none is restricted for enabling legislation.

N. Restricted Assets

Assets are reported as restricted when limitations on their use change the nature or normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws or regulations of other governments, or are imposed by enabling legislation. Restricted assets in the General Fund include amounts required by state statute to be set aside for budget stabilization. See Note 16 for additional information regarding set-asides.

O. Interfund Transactions

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures 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. Interfund transfers within governmental activities are eliminated in the statement of activities. Repayments from funds responsible for particular expenditures to the funds that initially paid for them are not presented on the financial statements.

NOTE 3 - BUDGETARY BASIS OF ACCOUNTING

While the School District is reporting financial position, results of operations, and changes in fund balances on the basis of accounting principles generally accepted in the United States of America (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The statement of revenues, expenditures and changes in fund balance - budget and actual (budgetary basis) presented for the General Fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget.

Northwest Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

NOTE 3 - BUDGETARY BASIS OF ACCOUNTING (continued)

The major differences between the budget basis and GAAP (modified accrual) 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); and
3. Encumbrances are treated as expenditures (budget basis) rather than as a restriction, commitment, or assignment of fund balance (GAAP basis).

The following table summarizes the adjustments necessary to reconcile the GAAP and budgetary basis statements for the General Fund.

Net Change in Fund Balance	
GAAP Basis	(\$409,529)
Revenue Accruals	126,662
Expenditure Accruals	(265,322)
Encumbrances	(161,828)
(Excess) Deficit of Funds Combined with the General Fund for Reporting Purposes	3,596
Budget Basis	(\$706,421)

As part of Governmental Accounting Standards Board Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions", certain funds that are legally budgeted in separate special revenue funds are considered part of the General Fund on a GAAP basis. This includes the entire Uniform School Supplies and Public School Support Funds.

NOTE 4 - DEPOSITS AND INVESTMENTS

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

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

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

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

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

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;

Northwest Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

NOTE 4 - DEPOSITS AND INVESTMENTS (continued)

2. Bonds, notes, debentures, or any other obligation or security issued by any federal government agency or instrumentality including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above;
4. Bonds and other obligations of the State of Ohio;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2);
7. The State Treasurer’s investment pool (STAROhio); and
8. Commercial paper and bankers acceptances if training requirements have been met.

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. Investments may only be made through specified dealers and institutions.

Deposits Custodial credit risk is the risk that in the event of a bank failure, the School District’s deposits may not be returned to it. According to State law, public depositories must give security for all public funds on deposit in excess of those funds that are insured by the Federal Deposit Insurance Corporation (FDIC) or by any other agency or instrumentality of the Federal government. These institutions may either specifically collateralize individual accounts in lieu of amounts insured by the FDIC, or may pledge a pool of government securities valued at least 105% of the total value of public monies on deposit at the institution. The School District’s policy is to deposit money with financial institutions that are able to abide by the laws governing insurance and collateral of public funds.

As of June 30, 2012, the School District’s bank balance of \$2,115,109 was either covered by FDIC or collateralized by the financial institution’s public entity deposit pool in the manner described above.

Investments As of June 30, 2012, the School District had the following investments and maturities:

	Carrying/Fair Value	Weighted Average Maturity (Years)
STAROhio	\$35,486	<1 Year

Interest Rate Risk – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. In accordance with the investment policy, the School District manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio.

Credit Risk – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The School District’s investment policy does not address credit risk beyond the requirements of the Ohio Revised Code. The School District limited its investments to securities in STAROhio. STAROhio has been rated AAAM by Standard & Poor’s.

Northwest Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

NOTE 4 - DEPOSITS AND INVESTMENTS (continued)

Concentration of Credit Risk – Concentration of credit risk is the risk of loss attributed to the magnitude of a government’s investment in a single user. The School District’s investment policy allows investments in STAROhio, repurchase agreements, and securities or obligations of federal agencies or instrumentalities. 100 percent of the School District’s investments are in STAROhio.

Custodial Credit Risk – Custodial credit risk is the risk that in the event of the failure of the counterparty, the School District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The School District’s investment policy does not address custodial credit risk beyond the requirements of the Ohio Revised Code. All of the School District’s securities are held in the name of the School District.

NOTE 5 - PROPERTY TAXES

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

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the School District. Real property tax revenue received in calendar year 2012 represents collections of calendar year 2011 taxes. Real property taxes received in calendar year 2012 were levied after April 1, 2011, on the assessed value listed as of January 1, 2011, the lien date. Assessed values for real property taxes are established by State law at thirty-five percent of appraised market 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.

Public utility property tax revenue received in calendar year 2012 represents collections of calendar year 2011 taxes. Public utility real and tangible personal property taxes received in calendar year 2012 became a lien on December 31, 2010, were levied after April 1, 2011, and are collected in 2012 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

Tangible personal property tax revenue received during calendar year 2012 (other than public utility property tax) represents the collection of 2012 taxes levied against local and inter-exchange telephone companies. Tangible personal property tax on business inventory, manufacturing machinery and equipment, and furniture and fixtures is no longer levied and collected. The October 2008 tangible personal property tax settlement was the last property tax settlement for general personal property taxes. Tangible personal property taxes received from telephone companies in calendar year 2012 were levied after April 1, 2011, on the value as of December 31, 2011. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the School District prior to June 30.

Northwest Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

NOTE 5 - PROPERTY TAXES (continued)

The assessed values upon which fiscal year 2012 taxes were collected are:

	2011 Second-Half Collections		2012 First-Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential And Other Real Estate	\$93,929,920	92.74%	\$94,399,470	92.71%
Public Utility	7,355,620	7.26%	7,427,890	7.29%
Total Assessed Value	\$101,285,540	100.00%	\$101,827,360	100.00%
Tax rate per \$1000 of Assessed Valuation	\$21.21		\$22.04	

The School District receives property taxes from Scioto County. The County Auditor periodically advances to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2012 are available to finance fiscal year 2012 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable represents delinquent taxes outstanding and real property, tangible personal property, and public utility taxes that became measurable as of June 30, 2012 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amounts available as an advance at June 30 were levied to finance current fiscal year operations. The receivable is therefore offset by a credit to deferred revenue for that portion not levied to finance current year operations. The amount available as an advance is recognized as revenue.

The amount available as an advance at June 30, 2012, was \$157,081 in the General Fund, \$3,920 in the Bond Retirement Major Debt Service Fund and \$2,725 in the Classroom Facilities Maintenance Non-major Special Revenue Fund.

NOTE 6 - RECEIVABLES

Receivables at June 30, 2012, consisted of taxes receivable, interfund receivables, 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 fiscal year guarantee of federal funds. A summary of the principal items of intergovernmental receivables follows:

Major Fund:	
General	\$40,294
Nonmajor Funds:	
Title I	74,854
Title II-A	11,891
Early Childhood Education	13,246
Education Jobs	82,723
Race to the Top	34,555
Total Nonmajor Funds	217,269
Total All Funds	\$257,563

Northwest Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

NOTE 7 - CAPITAL ASSETS

Capital assets activity for the fiscal year ended June 30, 2012, was as follows:

	Ending Balance 6/30/11	Additions	Deletions	Ending Balance 6/30/12
Capital Assets, Not Being Depreciated				
Land	\$246,624	\$0	\$0	\$246,624
Total Capital Assets, Not Being Depreciated	246,624	0	0	246,624
Capital Assets, Being Depreciated				
Land Improvements	1,300,965	13,160	0	1,314,125
Buildings and Improvements	35,237,777	25,177	0	35,262,954
Furniture and Equipment	6,022,469	161,684	(2,222)	6,181,931
Vehicles	2,038,156	4,600	(11,000)	2,031,756
Textbooks	1,079,146	0	0	1,079,146
Total Capital Assets, Being Depreciated	45,678,513	204,621	(13,222)	45,869,912
Less Accumulated Depreciation				
Land Improvements	(1,103,221)	(30,107)	0	(1,133,328)
Buildings and Improvements	(11,613,649)	(1,021,924)	2,071	(12,635,573)
Furniture and Equipment	(5,239,165)	(160,048)	11,000	(5,397,142)
Vehicles	(1,621,467)	(45,910)	0	(1,656,377)
Textbooks	(972,647)	(570)	0	(973,217)
Total Accumulated Depreciation	(20,550,149)	(1,258,559)	13,071	(21,795,637)
Total Capital Assets, Being Depreciated, Net	25,128,364	(1,053,938)	(151)	24,074,275
Governmental Activities Capital Assets, Net	\$25,374,988	(\$1,053,938)	(\$151)	\$24,320,899

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$611,381
Special	700
Vocational	839
Support Services:	
Pupils	2,898
Instructional Staff	5,636
Administration	4,094
Fiscal	336
Operation and Maintenance of Plant	557,157
Pupil Transportation	50,522
Operation of Non-Instructional Services	1,635
Extracurricular Activities	23,361
Total Depreciation Expense	<u>\$1,258,559</u>

Northwest Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

NOTE 8 – RISK MANAGEMENT

The School District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2012, the School District contracted with Argonaut Insurance Company for property, fleet insurance, and liability insurance coverage.

Coverages provided were as follows:

Building and contents – replacement cost	\$40,086,889
Excess liability	
Per occurrence	1,000,000
Total aggregate	1,000,000
Automobile liability	1,000,000
General liability	
Per occurrence	1,000,000
Total aggregate	3,000,000

Settled claims have not exceeded this commercial coverage in any of the past three years. The School District has reviewed their insurance policies and have made changes in coverage where deemed appropriate.

The School District is a member of the Scioto County Schools Council, a public entity shared risk pool (Note 15), offering employee medical and dental insurance to participating school districts within the county. Monthly premiums are paid to the South Central Ohio Educational Service Center as fiscal agent, who in turns pays the claims on the School District’s behalf. The Council is responsible for the management and operations of the program. Upon a school district’s termination from the Council, the Council shall have no obligation to the school district beyond paying claims incurred prior to termination and any applicable extended benefits that were provided under the plan. All claims and expenses shall be paid from the funds of the Council.

NOTE 9 - DEFINED BENEFIT PENSION PLANS AND OTHER POSTEMPLOYMENT BENEFITS

A. Defined Benefit Pension Plans

School Employees Retirement System

The School 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, under *Employers/Audit Resources*.

Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended, 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 2012, the allocation to pension and death benefits is 12.70 percent. The remaining 1.30 percent of the 14 percent employer contribution rate is allocated to the Health Care and Medicare B Funds. The School District’s contributions to SERS for the fiscal years ended June 30, 2012, 2011 and 2010 were \$374,948, \$337,095, and \$264,061, respectively, which equaled the required contributions each year.

NOTE 9 - DEFINED BENEFIT PENSION PLANS AND OTHER POSTEMPLOYMENT BENEFITS
(continued)

State Teachers Retirement System

State Teachers Retirement System of Ohio (STRS Ohio) is 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.

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 percent of earned compensation among various investment choices. The Combined Plan offers features of the DC Plan and the DB Plan. In the Combined Plan, member contributions are allocated to investment choices by the member, and employer contributions are used to fund a defined benefit payment at a reduced level from the regular DB Plan. Contributions into the DC Plan and the 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 percent multiplied by the total number of years of service credit (including Ohio-valued purchased credit) times the final average salary. The 31st year of earned Ohio service credit is calculated at 2.5 percent. An additional one-tenth of a percent is added to the calculation for every year of earned Ohio service over 31 years (2.6 percent for 32 years, 2.7 percent for 33 years and so on) until 100 percent of final average salary is reached. For members with 35 or more years of Ohio contributing service, the first 30 years will be calculated at 2.5 percent instead of 2.2 percent. 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 percent 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 percent 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.

Northwest Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

NOTE 9 - DEFINED BENEFIT PENSION PLANS AND OTHER POSTEMPLOYMENT BENEFITS
(continued)

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 percent 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 hospitalization, 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 these active 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.

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 its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers.

For the fiscal years ended June 30, 2012, 2011 and 2010, plan members were required to contribute 10 percent of their annual covered salaries. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations.

The School District's contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2012, 2011 and 2010 were \$954,095, \$934,141, and \$942,518, respectively; 83 percent of required contributions have been made for fiscal year 2012 and 100 percent of required contributions have been made for fiscal years 2011 and 2010. \$171,300 represents the unpaid contribution for fiscal year 2012 and is recorded as a liability within the respective funds.

STRS Ohio issues a stand-alone financial report. Additional information or copies of STRS Ohio's Comprehensive Annual Financial Report can be requested by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3771, by calling toll-free 1-888-227-7877, or by visiting the STRS Ohio website at www.strsoh.org.

Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement System/State Teachers Retirement System. As of June 30, 2012, one member of the Board of Education has elected Social Security. The Board's liability is 6.2 percent of wages paid.

NOTE 9 - DEFINED BENEFIT PENSION PLANS AND OTHER POSTEMPLOYMENT BENEFITS
(continued)

B. Postemployment Benefits

School Employees Retirement System

In addition to a cost-sharing, multiple-employer defined benefit pension plan, the School Employees Retirement System of Ohio (SERS) administers two post-employment 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 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 2012 was \$99.90 for most participants, but could be as high as \$319.70 per month 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 years 2012, 2011 and 2010, the actuarially required allocations were 0.75 percent, 0.76 percent, and 0.76 percent. For the School District, contributions for the years ended June 30, 2012, 2011 and 2010, were \$22,143, \$21,693, and \$19,252, which equaled the required allocation for those years.

Health Care Plan

Ohio Revised Code 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 HMOs, PPOs, 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 Ohio Revised Code provides the statutory authority to fund SERS' post-employment benefits through employer contributions. Active members do not make contributions to the post-employment 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 percent contribution to the Health Care Fund. For the years ended June 30, 2012, 2011 and 2010, the health care allocations were 0.55 percent, 1.43 percent, and 0.46 percent, respectively. 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 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS covered payroll for the health care surcharge. For fiscal year 2012, the minimum compensation level was established at \$35,800. The surcharge, added to the unallocated portion of the 14 percent employer contribution rate is the total amount assigned to the Health Care Fund. For the School District, contributions assigned to health care for the years ending June 30, 2012, 2011, and 2010 were \$49,457, \$86,110, and \$56,404, respectively.

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 upon the plan selected, qualified years of service, Medicare eligibility, and retirement status.

NOTE 9 - DEFINED BENEFIT PENSION PLANS AND OTHER POSTEMPLOYMENT BENEFITS
(continued)

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 under *Employers/Audit Resources*.

State Teachers Retirement System

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 Plan and Defined Contribution Plan.

Ohio law authorizes 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 Section 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 benefit recipients, 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 or by requesting a copy by calling toll-free 1-888-227-7877.

Under Ohio law, funding for post-employment health care may be deducted from employer contributions. Of the 14 percent employer contribution rate, 1 percent of covered payroll was allocated to post-employment health care for the years ended June 30, 2012, 2011 and 2010. The 14 percent employer contribution rate is the maximum rate established under Ohio law. For the School District, these amounts equaled \$73,392, \$71,857, and \$73,437, for fiscal years 2012, 2011 and 2010, respectively.

NOTE 10 - EMPLOYEE BENEFITS

A. Compensated Absences

The criteria for determining vacation and sick leave components are derived from negotiated agreements and State laws. Classified employees earn ten to twenty days of vacation per fiscal year, depending upon length of service. Accumulated, unused vacation time is paid to classified employees and administrators upon termination of employment. Teachers do not earn vacation time. Teachers, administrators, and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of 240 days for both classified and certified personnel. Upon retirement, payment is made for one-third of accrued, but unused sick leave credit to a maximum of 52 days for classified and 56 days for certified personnel.

B. Insurance Benefits

The School District provides life insurance to most employees through the Metropolitan Education Council.

C. Deferred Compensation

School District employees may participate in the Ohio Public Employees Deferred Compensation Plan. This plan was created in accordance with Internal Revenue Code Section 457. Participation is on a voluntary payroll deduction basis. The plan permits deferral of compensation until future years. According to the plan, the deferred compensation is not available until termination, retirement, death or an unforeseeable emergency.

Northwest Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

NOTE 11 - CAPITAL LEASES - LESSEE DISCLOSURE

The School District entered into a lease purchase agreement on August 21, 2002 to finance the School District's portion of the classroom facilities project. The lease meets the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, *Accounting for Leases*, which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee.

Capital lease payments have been reclassified and are reflected as debt service expenditures in the financial statements for the governmental funds. Principal payments in fiscal year 2012 totaled \$207,000 in the governmental funds.

The following is a schedule of the future long-term minimum lease payments required under the capital lease and the present value of the minimum lease payments as of June 30, 2012.

Fiscal Year Ending June 30,	
2013	\$290,929
2014	290,316
2015	290,085
2016	289,201
2017	289,629
Thereafter	442,064
Total Minimum Lease Payments	1,892,224
Less: Amounts Representing Interest	(275,224)
Present Value of Minimum Lease Payments	\$1,617,000

NOTE 12 - LONG-TERM LIABILITIES

The changes in the School District's long-term liabilities during fiscal year 2012 were as follows:

	Principal Outstanding 6/30/11	Additions	Deductions	Principal Outstanding 6/30/12	Due Within One Year
1999 Capital Appreciation Bonds:					
4.53% - 4.93%	\$336,553	\$0	\$89,392	\$247,161	\$85,957
Accretion on Capital Appreciation Bonds	594,904	73,697	180,608	487,993	189,043
Capital Leases	1,824,000	0	207,000	1,617,000	217,000
Compensated Absences	1,419,956	1,075,493	1,117,709	1,377,740	69,470
Total Long-Term Liabilities	\$4,175,413	\$1,149,190	\$1,594,709	\$3,729,894	\$561,470

\$1,990,000 were issued as serial bonds with interest rates ranging from 3.25% to 4.30%. \$529,992 were issued as capital appreciation bonds. The bonds were issued with a \$358,114 premium. The serial bonds and capital appreciation bonds are not subject to mandatory sinking fund or optional redemption prior to stated maturity. The serial and certain capital appreciation bonds matured in prior years. Capital appreciation bonds maturing in 2012 were repaid in the amount of \$270,000. The remaining capital appreciation bonds will mature in fiscal years 2013 through 2015. The maturity amount of the bonds is \$1,640,000. For fiscal year 2012, \$73,697 was accreted on the capital appreciation bonds for a total outstanding bond value of \$735,154 at fiscal year-end. \$487,993 was the total accreted value through June 30, 2012.

Capital appreciation general obligation bonds will be paid from the Bond Retirement Fund. Capital leases will be paid from the General Fund. Compensated absences will be paid from the funds from which the employees' salaries are paid, with the most significant fund being the General Fund.

Northwest Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

NOTE 12 - LONG-TERM LIABILITIES (continued)

The School District's overall legal debt margin was \$9,164,462 with an unvoted debt margin of \$101,827 at June 30, 2012.

Principal and interest requirements to retire capital appreciation general obligation bonds at June 30, 2012, are as follows:

Fiscal Year Ending June 30,	Capital Appreciation Bonds	Accretion	Total
2013	\$85,957	\$189,043	\$275,000
2014	82,849	197,151	280,000
2015	78,355	201,645	280,000
	<u>\$247,161</u>	<u>\$587,839</u>	<u>\$835,000</u>

The accretion in the amortization schedule does not match the principal outstanding at June 30, 2012 since the debt was not fully accreted as of June 30, 2012.

NOTE 13 - INTERFUND ACTIVITY

Interfund Transfers

Transfers made during the year ended June 30, 2012, were as follows:

	Transfer From	Transfer To
Major Fund:		
General	\$89,500	\$0
Nonmajor Fund:		
District Managed Activity	0	89,500
Total Nonmajor Fund	0	89,500
Total	\$89,500	\$89,500

Transfers are made to move unrestricted balances to support programs and projects accounted for in other funds.

Interfund Balances

Interfund balances at June 30, 2012, consist of the following individual fund receivables and payables, which are expected to be repaid during the 2013 fiscal year:

	Receivable	Payable
Major Fund:		
General Fund	\$169,578	\$0
Nonmajor Funds:		
Food Service	0	149,244
Race to the Top	0	20,334
Total Nonmajor Funds	0	169,578
Total Interfund Receivables/Payables	\$169,578	\$169,578

Northwest Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

NOTE 13 - INTERFUND ACTIVITY (continued)

The amounts due to the General Fund are the result of the School District moving unrestricted monies to support grant funds whose grants operate on a reimbursement basis. The General Fund will be reimbursed when funds become available in the non-major special revenue funds.

NOTE 14 - JOINTLY GOVERNED ORGANIZATIONS

South Central Ohio Computer Association - The School District is a participant in the South Central Ohio Computer Association (SCOCA) which is a computer consortium. SCOCA is an association of public school districts within the boundaries of Adams, Brown, Gallia, Highland, Jackson, Lawrence, Pickaway, Pike, Ross, Vinton, and Scioto Counties. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. The governing board of SCOCA consists of two representatives from each of the eleven participating counties, two representatives of the school treasurers plus the fiscal agent. The School District paid \$141,202 for services provided by SCOCA during the fiscal year. Financial information can be obtained from the fiscal agent, the Pike County Joint Vocational School District, Tonya Cooper, who serves as Treasurer, 175 Beaver Creek Road, Piketon, Ohio 45661.

Coalition of Rural and Appalachian Schools - The Coalition of Rural and Appalachian Schools is a jointly governed organization of over one hundred school districts in southeastern Ohio. The Coalition is operated by a board which is composed of fourteen members. The board members are composed of one superintendent from each county elected by the school districts within that county. The Coalition provides various services for school district administrative personnel; gathers data regarding conditions of education in the region; cooperates with other professional groups to assess and develop programs designed to meet the needs of member districts; and provides staff development programs for school district personnel. The Coalition is not dependent upon the continued participation of the School District and the School District does not maintain an equity interest in or a financial responsibility for the Coalition. The School District did not incur any expenditures for services provided by the Coalition during the year.

NOTE 15 - PUBLIC ENTITY SHARED RISK POOL

Scioto County Schools Council - The School District is a member of the Scioto County Schools Council, a public entity shared risk pool. Several Scioto County school districts have entered into an agreement with the South Central Ohio Educational Service Center to form the Scioto County Schools Council. The overall objectives of the Council are to formulate and administer a program of health insurance for the benefit of the Council members' employees and their dependents, to obtain lower costs for health coverage, and to secure cost control by implementing a program of comprehensive loss control. The Council's business and affairs are managed by a Board of Directors, consisting of the superintendents from each of the participating school districts. The School District pays premiums based on what the Council estimates will cover the costs of all claims for which the Council is obligated. If the School District's claims exceed its premiums, there is no individual supplemental assessment; on the other hand, if the School District's claims are low, it will not receive a refund.

The Council views its activities in the aggregate, rather than on an individual entity basis. To obtain financial information, write to the fiscal agent, South Central Ohio Educational Service Center at 411 Court Street, Portsmouth, Ohio 45662.

Northwest Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

NOTE 16 - SET-ASIDE CALCULATIONS AND FUND BALANCE RESTRICTIONS

The School District is required by State statute to annually set aside in the General Fund an amount based on a statutory formula for the acquisition or construction of capital improvements. Amounts not spent by year-end or offset by similarly restricted resources received during the year must be held in restricted cash at year-end and carried forward to be used for the same purposes in future years. The School District is no longer required to set aside funds in the budget stabilization set-aside, with the exception of monies received from the Bureau of Worker's Compensation, which must be spent for specified purposes. The School District has elected to maintain its budget stabilization set-aside to be used to offset future fund deficits. As such, this set-aside is not reflected as restricted on the fund financial statements, but is instead reflected in the unassigned fund balance classification.

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

	Capital Acquisition	Budget Stabilization
Set-aside balance as of June 30, 2011	\$0	\$87,229
Current year set-aside requirement	292,672	0
Current year offsets	(32,166)	0
Current year qualifying disbursements	(9,846)	0
Prior year offset from bond proceeds	(250,660)	0
Excess qualified expenditures from prior years	0	0
Total	\$0	\$87,229
Balance carried forward to fiscal year 2013	\$0	\$87,229
Set-aside balance as of June 30, 2012	\$0	\$87,229

The School District had offsets and qualifying disbursements during the year that reduced the set-aside amount below zero in the capital acquisition set-aside. The carryover amount in the capital acquisition set-aside is limited to the balance of the offsets attributed to bond or tax levy proceeds. The amount presented for prior year offset from bond proceeds is limited to an amount needed to reduce the set-aside for capital acquisition to \$0. The School District is responsible for tracking the amount of the bond proceeds that may be used as an offset in future periods, which was \$3,339,613 at June 30, 2012.

NOTE 17 - CONTINGENCIES

A. Grants

The Auditor of State is currently performing a statewide review of supporting documentation for student attendance data reported to the Ohio Department of Education. The results of this review are still pending and will be reported separately to the Ohio Department of Education at a later date.

The School District received financial assistance from federal and State agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. This also encompasses the Auditor of State's ongoing review of student attendance data. However, the effect of any such disallowed claims on the overall financial position of the School District at June 30, 2012, if applicable, cannot be determined at this time.

Northwest Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

NOTE 17 – CONTINGENCIES (continued)

B. Litigation

The School District is not current party to legal proceedings.

NOTE 18 – ACCOUNTABILITY

Accountability - Fund Balance Deficits

At June 30, 2012, the General Fund and the Food Service, Early Childhood, Title I, Title II-A, and Miscellaneous Federal Grants Special Revenue Funds had fund balance deficits of \$641,488, \$252,472, \$2,375, \$58,272, \$12,723, and \$269, respectively, which were created by the application of accounting principles generally accepted in the United States of America. The General Fund provides transfers to cover deficit balances; however, this is done when cash is needed rather than when accruals occur.

NOTE 19 – FUND BALANCES

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

	General	Bond Retirement	Other Governmental Funds	Total Governmental Funds
<i>Restricted</i>				
Capital Projects and Maintenance	\$0	\$0	\$181,653	\$181,653
Athletics	0	0	96,267	96,267
State Grants	0	0	2,875	2,875
Federal Grants	0	0	2,047	2,047
Debt Service	0	804,656	0	804,656
Total Restricted	0	804,656	282,842	1,087,498
<i>Committed</i>				
Other Purposes	73,918	0	0	73,918
<i>Assigned</i>				
Other Purposes	77,949	0	0	77,949
Student and Staff Support	8,862	0	0	8,862
Total Assigned	86,811	0	0	86,811
<i>Unassigned</i>	(802,217)	0	(326,111)	(1,128,328)
Total Fund Balances	(\$641,488)	\$804,656	(\$43,269)	\$119,899

Northwest Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

NOTE 20 – ENCUMBRANCE COMMITMENTS

At June 30, 2012, the School District had encumbrance commitments in the governmental funds as follows:

<i>Major Fund</i>	
General	\$161,828
<i>Nonmajor Fund</i>	
Athletics	<u>8,663</u>
Total Encumbrances	<u>\$170,491</u>

NOTE 21 – FINANCIAL CONDITION

The Ohio Department of Education declared the School District to be in a state of fiscal caution, effective August 10, 2012. This was based on mutual concern between the administration of the School District and the Ohio Department of Education about the possibility of ending fiscal year 2013 with a deficit, as well as the potential for deficits in future years.

**NORTHWEST LOCAL SCHOOL DISTRICT
SCIOTO COUNTY**

**FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

FEDERAL GRANTOR/ Pass Through Grantor Program Title	Grant Year	Federal CFDA Number	Receipts	Disbursements
<u>U.S. DEPARTMENT OF AGRICULTURE</u>				
<i>Passed Through Ohio Department of Education:</i>				
Child Nutrition Cluster:				
Non-Cash Assistance (Food Distribution):				
National School Lunch Program	2011/2012	10.555	\$ 18,293	\$ 18,293
Cash Assistance:				
School Breakfast Program	2011/2012	10.553	191,499	191,499
National School Lunch Program	2011/2012	10.555	457,887	457,887
Cash Assistance Subtotal			<u>649,386</u>	<u>649,386</u>
Total Child Nutrition Cluster			<u>667,679</u>	<u>667,679</u>
Total U.S. Department of Agriculture			667,679	667,679
<u>U.S. DEPARTMENT OF EDUCATION</u>				
<i>Passed Through Ohio Department of Education:</i>				
Title I:				
Title I Grants to Local Educational Agencies	2011	84.010	81,791	95,470
Title I Grants to Local Educational Agencies	2012	84.010	651,491	648,627
Total Title I			<u>733,282</u>	<u>744,097</u>
Special Education Grants to States	2012	84.027	348,697	348,697
Education Technology State Grants	2011	84.318	5,224	5,224
Rural Education	2012	84.358	32,697	32,697
Improving Teacher Quality State Grants	2011	84.367	23,903	23,903
	2012		102,372	93,312
Total Improving Teacher Quality State Grants			<u>126,275</u>	<u>117,215</u>
Education Jobs Fund	2012	84.410	609,279	597,291
ARRA - Race To the Top	2011	84.395	11,313	0
	2012		174,153	194,487
Total ARRA - Race To the Top			<u>185,466</u>	<u>194,487</u>
Total U.S. Department of Education			<u>2,040,920</u>	<u>2,039,708</u>
Total Federal Awards Receipts and Expenditures			<u>\$ 2,708,599</u>	<u>\$ 2,707,387</u>

The Notes to the Federal Awards Receipts and Expenditures Schedule is an integral part of the Schedule.

**NORTHWEST LOCAL SCHOOL DISTRICT
SCIOTO COUNTY**

**NOTES TO THE FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FISCAL YEAR ENDED JUNE 30, 2012**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B - CHILD NUTRITION CLUSTER

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

NOTE C - FOOD DONATION PROGRAM

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



Dave Yost • Auditor of State

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

Northwest Local School District
Scioto County
800 Mohawk Drive
McDermott, Ohio 45690

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Northwest Local School District, Scioto County, (the School District) as of and for the year ended June 30, 2012, which collectively comprise the School District's basic financial statements and have issued our report thereon dated February 15, 2013, wherein we noted the School District was placed in Fiscal Caution by the Ohio Department of Education on August 10, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School District's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of opining on the effectiveness of the School District's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the School District's internal control over financial reporting.

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 deficiencies in internal control such that there is a reasonable possibility that material financial statement misstatement will not be prevented, or detected and timely corrected.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider material weaknesses, as defined above. However, we identified a certain deficiency in internal control over financial reporting, described in the accompanying Schedule of Findings and Questioned Costs that we consider a significant deficiency in internal control over financial reporting. We consider Finding 2012-002 to be a significant deficiency. 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.

Compliance and Other Matters

As part of reasonably assuring whether the School District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion 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 an instance of noncompliance or other matter we must report under *Government Auditing Standards* which is described in the accompanying Schedule of Findings and Questioned Costs as item 2012-001.

We also noted certain matters not requiring inclusion in this report that we reported to the School District's management in a separate letter dated February 15, 2013.

The School District's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the School District's responses and, accordingly, we express no opinion on them.

We intend this report solely for the information and use of management, the Board of Education, and federal awarding agencies and pass-through entities, and others within the School District. We intend it for no one other than these specified parties.



Dave Yost
Auditor of State

February 15, 2013



Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

Northwest Local School District
Scioto County
800 Mohawk Drive
McDermott, Ohio 45652

To the Board of Education:

Compliance

We have audited the compliance of the Northwest Local School District (the School District) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that could directly and materially affect each of the Northwest Local School District's major federal programs for the year ended June 30, 2012. The Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs identifies the School District's major federal programs. The School District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the School District's compliance based on our audit.

Our compliance audit followed auditing standards generally accepted in the United States of America; the standards applicable to 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*. Those standards and OMB Circular A-133 require that we plan and perform the audit to reasonably assure whether noncompliance occurred with the compliance requirements referred to above that could directly and materially affect a major federal program. An audit includes examining, on a test basis, evidence about the Government's compliance with those requirements and performing other procedures we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the School District's compliance with those requirements.

As described in finding 2012-003 in the accompanying Schedule of Findings and Questioned Costs, the School District did not comply with the requirements regarding Allowable Costs/Cost Principles applicable to its Title I Grants to Local Educational Agencies. Compliance with this requirement is necessary, in our opinion, for the School District to comply with requirements applicable to this program.

In our opinion, except for the noncompliance described in the preceding paragraph, the Northwest Local School District complied, in all material respects, with the requirements referred to above that could directly and materially affect each of its major federal programs for the year ended June 30, 2012.

Internal Control Over Compliance

The School District's management is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the School District's internal control over compliance with requirements that could directly and materially affect a major federal program, to determine our auditing procedures for the purpose of expressing our opinion on compliance, and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of opining on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the School District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program 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.

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 deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

The School District's response to the finding we identified is described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the School District's response and, accordingly, we express no opinion on it.

We also noted matters involving federal compliance or internal control over federal compliance not requiring inclusion in this report, that we reported to the School District in a separate letter dated February 15, 2013.

We intend this report solely for the information and use of the management, the Board of Education, others within the entity, federal awarding agencies, and pass-through entities. It is not intended for anyone other than these specified parties.



Dave Yost
Auditor of State

February 15, 2013

**NORTHWEST LOCAL SCHOOL DISTRICT
SCIOTO COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 § .505
JUNE 30, 2012**

1. SUMMARY OF AUDITOR'S RESULTS
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(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any other significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material noncompliance at the financial statement level (GAGAS)?	Yes
(d)(1)(iv)	Were there any material internal control weaknesses reported for major federal programs?	No
(d)(1)(iv)	Were there any other significant deficiencies in internal control reported for major federal programs?	Yes
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified for ARRA – Race to the Top (CFDA #84.395) and Education Jobs Fund (CFDA #84.410) Qualified for Title I – Grants to Local Educational Agencies (CFDA #84.010)
(d)(1)(vi)	Are there any reportable findings under § .510?	Yes
(d)(1)(vii)	Major Programs (list):	Title I - Grants to Local Educational Agencies – CFDA # 84.010 ARRA – Race to the Top – CFDA # 84.395 Education Jobs Fund – CFDA # 84.410
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	No

**NORTHWEST LOCAL SCHOOL DISTRICT
SCIOTO COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 § .505
JUNE 30, 2012
(Continued)**

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

FINDING NUMBER 2012-001

Noncompliance Citation – Ohio Rev. Code Section 5705.41(D)(1)

Ohio Rev. Code Section 5705.41(D)(1) prohibits a subdivision or taxing entity from making any contract or ordering any expenditure of money unless a certificate signed by the treasurer is attached thereto. The treasurer must certify that the amount required to meet any such contract or expenditure has been lawfully appropriated and is in the treasury, or is in the process of collection to the credit of an appropriate fund free from any previous encumbrance.

There are several exceptions to the standard requirement stated above that a treasurer's certificate must be obtained prior to a subdivision or taxing authority entering into a contract or order involving the expenditure of money. The main exceptions are: "then and now" certificates, blanket certificates, and super blanket certificates, which are provided for in Sections 5705.41(D)(1) and 5705.41(D)(3), respectively, of the Ohio Revised Code.

1. "Then and Now" certificate - If the treasurer can certify that both at the time that the contract or order was made ("then"), and at the time that the treasurer is completing the certification ("now"), that sufficient funds were available or in the process of collection, to the credit of a proper fund, properly appropriated and free from any previous encumbrance, the School District can authorize the drawing of a warrant for the payment of the amount due. The School District has thirty days from receipt of the "then and now" certificate to approve payment by ordinance or resolution.

Amounts of less than \$3,000 may be paid by the treasurer without a resolution or ordinance upon completion of the "then and now" certificate, provided that the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirement for approval of expenditures by the District.

2. Blanket Certificates - Treasurers may prepare so-called "blanket" certificates not running beyond the current fiscal year. The blanket certificates may, but need not, be limited to a specific vendor. Only one blanket certificate may be outstanding at one particular time for any one particular line item appropriation. Purchase orders may not exceed an amount established by resolution or ordinance of the legislative authority, and cannot extend past the end of the fiscal year. In other words, blanket certificates cannot be issued unless there has been an amount approved by the legislative authority for the blanket.

3. Super Blanket Certificate - The School District may also make expenditures and contracts for any amount from a specific line item appropriation account in a specified fund upon certification of the fiscal officer for most professional services, fuel, oil, food items, and any other specific recurring and reasonably predictable operating expense. This certification is not to exceed beyond the current year. More than one super blanket certificate may be outstanding at a particular time for any line item appropriation.

The Treasurer did not certify the availability of funds prior to making commitments for 33% of the disbursements tested for 2012 and there was no evidence that the School District followed the aforementioned exceptions. Failure to properly certify the availability of funds can result in overspending funds and negative cash fund balances.

**NORTHWEST LOCAL SCHOOL DISTRICT
SCIOTO COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 § .505
JUNE 30, 2012
(Continued)**

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

FINDING NUMBER 2012-001 (Continued)

Noncompliance Citation – Ohio Rev. Code Section 5705.41(D)(1) (Continued)

Unless the exceptions noted above are used, prior certification is not only required by statute but is a key control in the disbursement process to assure that purchase commitments receive prior approval. To improve controls over disbursements and to help reduce the possibility of the School District's funds exceeding budgetary spending limitations, we recommend that the Treasurer certify that the funds are or will be available prior to an obligation being incurred by the School District. When prior certification is not possible, "then and now" certification should be used.

We recommend the School District obtain the Treasurer's certification of the availability of funds prior to the commitment being incurred. The most convenient certification method is to use purchase orders that include the certification language Section 5705.41(D) requires to authorize disbursements. The Treasurer should sign the certification at the time the School District incurs a commitment, and only when the requirements of Section 5705.41(D) are satisfied. The Treasurer should post approved purchase commitments to the proper appropriation code, to reduce the available appropriation.

Officials' Response:

I was not in this School District during a huge part of this audit time. I am assuming this may be due in part from the turnover of the prior treasurer leaving and subsequently the interim treasurer left as well. Since I have been here, I have worked to assure that this is not taking place. I personally sign each purchase order checking dates and amounts. I also have sent out several emails to remind staff that expenditures must be approved and purchase orders must be approved ahead of time.

FINDING NUMBER 2012-002

Significant Deficiency

All local public offices should maintain an accounting system and accounting records sufficient to enable the public office to identify, assemble, analyze, classify, record and report its transactions, maintain accountability for the related assets (and liabilities, if generally accepted accounting principles apply), document compliance with finance-related legal and contractual requirements and prepare financial statements. This includes posting expenditures of State and Federal Funds directly to the grant funds at the time the expenditures are made instead of recording correcting entries and/or posting corrections.

While testing expenditures for the Fiscal Year 2012 Title I Grant, Education Jobs Grant, and Title VI-B Grant and Title I Grant and Title II-D Grant for Fiscal Year 2011 we found that many of the expenditures were not made directly from the grant funds. Expenditures were initially posted to the General Fund and then allocated to the grants funds by means of posting corrections. We also noted instances where expenditures were posted to the Title I Grant Fund, Fiscal Year 2011, and then transferred to the General Fund. We note that expenditures were posted to these programs and transferred as a correcting entry as follows:

**NORTHWEST LOCAL SCHOOL DISTRICT
SCIOTO COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 § .505
JUNE 30, 2012
(Continued)**

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

FINDING NUMBER 2012-002 (Continued)

Significant Deficiency (Continued)

Program	Amount	Method/Description of Posting
Title I Grants to Local Educational Agencies - FY 2011	\$ 195	Correcting Entry Posted to allocate expenditures from the Title I Grant Fund to the General Fund.
Title I Grants to Local Educational Agencies - FY 2011	\$42,217	Correcting Entry Posted to allocate expenditures from the Title I Grant Fund to the General Fund.
Title I Grants to Local Educational Agencies - FY 2011	\$ 256	Correcting Entry Posted to allocate expenditures from the Title I Grant Fund to the General Fund for "P/C Involvement"
Title I Grants to Local Educational Agencies - FY 2011	\$ 8,593	Correcting Entry Posted to allocate expenditures for benefits from the Title I Grant Fund to the General Fund.
Title I Grants to Local Educational Agencies - FY 2012	\$32,686	Correcting Entry Posted to allocate District Technology and Curriculum Coordinator salary from the General Fund to the Title I Grant Fund.
Title I Grants to Local Educational Agencies - FY 2012	\$ 600	Correcting Entry Posted to remove the Home Economics teacher portion of the salary which was inadvertently posted to the Title I Grant Fund.
Education Jobs Fund - FY 2012	\$113,523	Correcting Entry Posted to remove partial salaries of fourteen employees from the General Fund and post as salary expenditures for the Ed Jobs Fund.
Title II-D - FY 2011	\$ 5,224	Correcting Entry Posted to remove expenditures from purchased services line item in Title VI-B FY 2009 Grant and move to purchased services in the Title II-D FY 2011 Grant.
Title VI-B - FY 2012	\$ 4,938	Correcting Entry Posted to remove salary expenditures for one teacher from the General Fund and to post the the Title VI-B FY 2012 Grant.

Some of the correcting entries were made weeks or months after the expenditure had been made. These correcting entries made it difficult to determine the expenditures which were being moved to show as an expenditure in grant funds, expenditures by object code to compare to the grant budget for budget versus actual monitoring and to determine the actual expenditure amounts at selected times throughout the year.

We recommend expenditures of state and federal funds be posted directly to the state or federal grant fund at the time the expenditures are made instead of making correcting entries at a later date to reallocate the expenditures.

**NORTHWEST LOCAL SCHOOL DISTRICT
SCIOTO COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 § .505
JUNE 30, 2012
(Continued)**

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

FINDING NUMBER 2012-002 (Continued)

Significant Deficiency (Continued)

Officials Response:

Once again, this was done with the prior treasurer. This seems to have been a procedure of hers once she got to the end of the grant period. I did not transfer any funds at fiscal year end, I simply included it in my carry over for the next year. Actually we did not have large amounts to carry over in any one account due to the fact that we were expending things the way they should have been.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

FINDING NUMBER 2012-003

Finding Number	2012-003
CFDA Title and Number	Title I Grants to Local Educational Agencies: CFDA # 84.010
Federal Award Number/Year	2012
Federal Agency	U.S. Department of Education
Pass-Through Agency	Ohio Department of Education

Noncompliance Finding/Federal Questioned Cost

Allowable Costs/Cost Principles

OMB Cost Principles 2 C.F.R. Part 225, Appendix B, Section 8(a), (formerly known as "Circular A-87") provides that compensation for personnel services include all remuneration, paid currently or accrued, for services rendered during the period of performance under Federal Awards, including but not necessarily limited to wages, salaries, and fringe benefits. The costs of such compensation are allowable to the extent that they satisfy the specific requirements of this and other appendices under 2 CFR Part 225.

2 C.F.R. Part 225, Appendix B, Section 8(h)(3) states where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi-annually and will be signed by the employee or supervisory official having firsthand knowledge of the work performed by the employee.

The School District only filed one single funding certification for the teachers paid solely from Title I monies during the audit period. The School District did not file the two semi-annual certifications as required.

**NORTHWEST LOCAL SCHOOL DISTRICT
SCIOTO COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 § .505
JUNE 30, 2012
(Continued)**

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS (Continued)
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FINDING NUMBER 2012-003 (Continued)

Noncompliance Finding/Federal Questioned Cost (Continued)

Allowable Costs/Cost Principles (Continued)

2 C.F.R. Part 225, Appendix B, Section 8(h)(4)(a)-(e) states where employees work on multiple activities or cost objectives, a distribution of their salaries and wages will be supported by personnel activity reports or equivalent documentation. Such documentary support will be required where employees work on:

- More than one federal award.
- A federal award and a non-federal award.
- An indirect cost activity and a direct activity.
- Two or more indirect activities which are allocated using different allocations bases, or
- An unallowable activity and a direct or indirect cost activity.

2C.F.R. Part 225, Appendix B, Section 8(h)(5)(a)-(d) states that personnel activity reports or equivalent documentation must meet the following standards:

- They must reflect an after-the-fact distribution of the actual activity of each employee,
- They must account for the total activity for which each employee is compensated,
- They must be prepared at least monthly and must coincide with one or more pay periods, and
- They must be signed by the employee.

2 C.F.R. Part 225, Appendix B, Section 8(h)(5)(e)(i)-(iii) further provides that budget estimates or other distribution percentages determined before the services are performed do not qualify as support for charges to Federal awards but may be used for interim accounting purposes provided that:

- The governmental unit's system for establishing the estimates produces reasonable approximations of the activity actually performed;
- At least quarterly, comparisons of actuals costs to budgeted distributions based on the monthly activity reports are made. Costs charge to federal awards to reflect adjustments made as a result of the activity actually performed may be recorded annually if the quarterly comparisons show the differences between budgeted and actual costs are less than ten percent and;
- The budget estimates or other distribution percentages are revised at least quarterly, if necessary, to reflect changed circumstances.

The Federal Coordinator's salary was to be paid 52% from the Title I Fund per the budget. The Coordinator's compensation is based upon an 8 hour work day. The School District had support for the pay periods that the Coordinator was paid from the Title I Fund during the audit period. However, the School District made a correcting entry in the amount of \$32,685 for the amount of compensation that the Coordinator should have been paid from the Title I Fund but was actually paid from the General Fund. There was no time and effort documentation maintained to justify this amount of the salary adjustment. In addition, the calculation of the correcting entry used eleven pay periods times the federal coordinators gross pay and as of the date of the correcting entry, December 12th, there had only been seven pay periods paid from the FY 2012 Title I Grant.

**NORTHWEST LOCAL SCHOOL DISTRICT
SCIOTO COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 § .505
JUNE 30, 2012
(Continued)**

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS (Continued)
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FINDING NUMBER 2012-003 (Continued)

Noncompliance Finding/Federal Questioned Cost (Continued)

Allowable Costs/Cost Principles (Continued)

Section 9201 or 9203 of the Elementary and Secondary Education Act (ESEA) permits school districts to consolidate Federal administrative funds for various federal programs, including Title I Part A (20 U.S.C 6314) to upgrade the entire educational program of the school. Time-and-effort requirements in schoolwide program schools vary under different circumstances.

1. If a school operating a schoolwide program consolidates Federal, State, and local funds in a consolidated schoolwide pool, an employee who is paid with funds from that pool is not required to file a semi-annual certification because there is no distinction between staff paid with Federal funds and staff paid with State or local funds. In effect, payment from the single consolidated schoolwide pool certifies that the employee works only on activities of the schoolwide program.
2. If a school operating a schoolwide program does not consolidate Federal funds with State and local funds in a consolidated schoolwide pool, an employee who works, in whole or in part, on a Federal program or cost objective must document time and effort as follows:
 1. (a) An employee who works solely on a single cost objective (i.e., a single Federal program whose funds have not been consolidated or Federal programs whose funds have been consolidated but not with State and local funds) must furnish a semi-annual certification that he/she has been engaged solely in activities supported by the applicable source in accordance with OMB Circular A-87, Attachment B, paragraph 8.h.(3).
 2. (b) An employee who works on multiple activities or cost objectives (i.e., in part on a Federal program whose funds have not been consolidated in a consolidated schoolwide pool and in part on Federal programs supported with funds consolidated in a schoolwide pool or on activities funded from other revenue sources) must maintain time and effort distribution records in accordance with OMB Circular A-87, Attachment B, paragraph 8.H.(4), (5), and (6). The employee must document the portion of time and effort dedicated to:
 1. (i) The Federal program; and
 2. (ii) Each program or other cost objective supported either by consolidated Federal funds or other revenue sources.

Although the School District is operating a schoolwide program, the School District has not consolidated its Federal funds with its State and local funds in a schoolwide pool. The School District charged 52% of the Federal Coordinator's salary and fringe benefits to the Title I program. Support of time and effort was not maintained for \$32,685 of the Federal Coordinator's salary. Also, the \$32,685 correcting entry was calculated using eleven pay periods, and as of the date the entry was posted, December 12th, the District had only seven pays from the Title I Grant. As a result, \$32,685 is questioned.

We recommend the School District develop internal control procedures to ensure all School District employees complete semi-annual certifications or maintain time and effort documentation of costs charged to Federal programs in accordance with the requirements described above. Also, when correcting entries are necessary, the amounts need to be reviewed for accuracy prior to posting the adjustment and maintain adequate support for the entry.

**NORTHWEST LOCAL SCHOOL DISTRICT
SCIOTO COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 § .505
JUNE 30, 2012
(Continued)**

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS (Continued)

FINDING NUMBER 2012-003 (Continued)

Noncompliance Finding/Federal Questioned Cost (Continued)

Allowable Costs/Cost Principles (Continued)

Officials' Response:

Once again, this was done with the prior treasurer. We have assured that the proper paper work is in place and that the proper people have been paid with federal funds. I immediately changed the criteria of who was being paid from the federal funds. This will not be an issue in the future.

**NORTHWEST LOCAL SCHOOL DISTRICT
SCIOTO COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
OMB CIRCULAR A -133 § .315 (b)
JUNE 30, 2012**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2011-001	A comment was issued in the prior audit to address the former Treasurer using leave and not accounting for the leave	Yes	The former treasurer is no longer an employee of the School District.
2011-002	A comment was issued in the prior audit to address School Fiscal Stabilization Grant monies not being spent within the time constraints on the grant agreement.	Yes	The School District did not receive this funding in the current audit period.

**NORTHWEST LOCAL SCHOOL DISTRICT
SCIOTO COUNTY**

**CORRECTIVE ACTION PLAN
OMB CIRCULAR A-133 §.315(c)
JUNE 30, 2012**

Finding Number	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person
2012-001	Purchase orders will be approved prior to making commitments for purchases.	February, 2013	Diana Reedy, Treasurer
2012-002	Semi-annual certifications will be completed every six months and the appropriate amount of the Federal Coordinators salary will be paid directly from the Title I Fund.	February, 2013	Diana Reedy, Treasurer
2012-003	Monies will be carried over from one grant year to the next instead of transferring expenditures into grant funds at year end.	February, 2013	Diana Reedy, Treasurer



Dave Yost • Auditor of State

NORTHWEST LOCAL SCHOOL DISTRICT

SCIOTO 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 5, 2013**