



**NORTHWESTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY
REGULAR AUDIT
FOR THE YEAR ENDED JUNE 30, 2006**



**Auditor of State
Betty Montgomery**



Mary Taylor, CPA
Auditor of State

January 19, 2007

The attached audit report was completed and prepared for release prior to the commencement of my term of office on January 8, 2007. Thus, I am certifying this audit report for release under the signature of my predecessor.

Mary Taylor

MARY TAYLOR, CPA
Auditor of State

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**NORTHWESTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Northwestern Local School District
Clark County
5610 Troy Road
Springfield, Ohio 45502

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 Northwestern Local School District, Clark County, (the District), as of and for the fiscal year ended June 30, 2006, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the 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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the District, as of June 30, 2006, and the respective changes in financial position and the budgetary comparison for the General Fund for the fiscal 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 January 3, 2007, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. 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.

Management Discussions and Analysis is not a required part of the basic financial statements but is supplementary information accounting principles generally accepted in the United States of America requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

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We conducted our audit to opine on the financial statements that collectively comprise the District's basic financial statements. The federal awards expenditure schedule is required by the *U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements. We subjected the federal awards expenditure schedule to the auditing procedures applied in the audit of the basic financial statements. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

Betty Montgomery
Auditor of State

January 3, 2007

**NORTHWESTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

**MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE PERIOD ENDED JUNE 30, 2006
(UNAUDITED)**

The discussion and analysis of Northwestern Local School District's (the District) financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2006. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the District's financial performance.

Financial Highlights

Key financial highlights for 2006 are as follows:

- Net assets, excluding amounts invested in capital assets net related of debt, were \$2.93 million. Of this amount, \$2.51 million is unrestricted for the School District's discretionary use.
- General revenues accounted for \$13.57 million in revenue or 84.44 percent of all revenues. Program specific revenues in the form of charges for services, grants and contributions accounted for \$2.50 million or 15.56 percent of total revenues of \$16.06 million.
- Assets, excluding capital assets, increased by \$.48 million including an increase in cash and cash equivalents of \$.52 million and a decrease in intergovernmental receivables of \$.06 million.
- The School District had \$15.46 million in expenses related to governmental activities; only \$2.50 million of these expenses were offset by program specific charges for services, grants or contributions. General revenues of \$13.57 million, along with cash balances, were adequate to provide for these programs.
- The general fund had \$14.28 million in revenues and \$13.25 million in expenditures. The general fund's balance at the close of the current year was 22.74 percent of the current year's expenditures.

Overview of the Financial Statements

The discussion and analysis is intended to serve as an introduction to the School District's basic financial statements. The School District's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the School District's finances, in a manner similar to private-sector business.

The *statement of net assets* presents information on all the School District's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases and decreases in net assets may serve as a useful indicator of whether the financial position of the School District is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g. uncollected taxes and earned but unused vacation leave.)

Both of the government-wide financial statements distinguish functions of the School District that are principally supported by taxes and intergovernmental revenues (*governmental activities*). The government-wide financial statements can be found on pages 11 - 12 of this report.

**NORTHWESTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

**MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE PERIOD ENDED JUNE 30, 2006
(UNAUDITED)
(Continued)**

Fund financial statements - A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The School District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All the funds of the School District can be divided into two categories: governmental funds and fiduciary funds.

Governmental funds - Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the School District's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between the governmental activities statement of net assets and statement of activities.

The School District maintains twenty-one individual governmental funds. Information is presented separately in the governmental fund balance sheet and the statement of fund revenues, expenditures and changes in fund balance for the general fund which is considered a major fund. Data from the other twenty governmental funds are combined into a single, aggregate presentation.

The School District adopts an annual appropriation budget for all of its governmental funds. Budgetary comparison statements have been provided for the general fund to demonstrate compliance with this budget. The basic governmental fund financial statements can be found on pages 11 - 17 of this report.

Fiduciary Funds - Fiduciary funds are used to account for resources held for the benefit of parties outside the School District. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the School District's own programs. The accounting used for fiduciary funds is much like that used for governmental funds. The basic fiduciary fund financial statement can be found on page 18 of this report.

Notes to the Financial Statement - The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements start on page 19 of this report.

**NORTHWESTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

**MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE PERIOD ENDED JUNE 30, 2006
(UNAUDITED)
(Continued)**

Government-Wide Financial Analysis

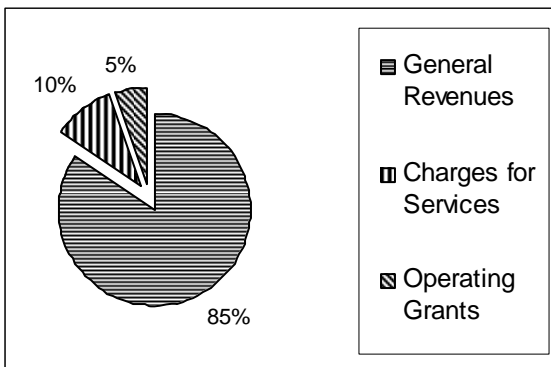
Recall that the Statement of Net Assets provides the perspective of the District as a whole. Table 1 provides a comparison of the School District's net assets for 2005 to 2006.

**Table 1
Net Assets
(in Millions)**

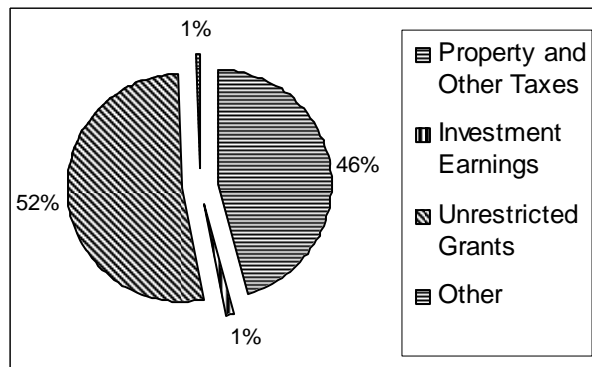
| | <u>2005</u> | <u>2006</u> | <u>Change</u> |
|----------------------------|---------------|---------------|---------------|
| Assets | | | |
| Current and Other Assets | \$9.25 | \$9.73 | \$0.48 |
| Capital Assets | 7.22 | 6.89 | (0.33) |
| Total Assets | <u>16.47</u> | <u>16.62</u> | <u>0.15</u> |
| Liabilities | | | |
| Long-term Liabilities | (1.66) | (1.66) | 0.00 |
| Other Liabilities | (6.54) | (6.09) | .45 |
| Total Liabilities | <u>(8.20)</u> | <u>(7.75)</u> | <u>.45</u> |
| Net Assets | | | |
| Invested in Capital Assets | \$6.18 | \$5.95 | (\$0.23) |
| Restricted for: | | | |
| Grants | 0.04 | 0.00 | (0.04) |
| State Mandates | 0.04 | 0.04 | 0.00 |
| Capital Improvements | 0.47 | 0.37 | (0.10) |
| Unrestricted | <u>1.54</u> | <u>2.51</u> | <u>.97</u> |
| Total Net Assets | <u>\$8.27</u> | <u>\$8.87</u> | <u>\$0.60</u> |

Graphs 1 and 2 break down the District's Fiscal Year 2006 revenue into percentages by type of revenue.

Graph 1 Total Revenues



Graph 2 General Revenues



**NORTHWESTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

**MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE PERIOD ENDED JUNE 30, 2006
(UNAUDITED)
(Continued)**

Table 2 shows the revenue for the District as a whole during fiscal years 2005 and 2006.

**Table 2
Revenues
(in Millions)**

| | <u>2005</u> | <u>2006</u> | <u>Change</u> |
|--------------------------------|----------------|----------------|---------------|
| Revenues | | | |
| Program Revenues | | | |
| Charges for Services | \$1.49 | \$1.63 | \$.14 |
| Operating Grants/Contributions | 0.87 | 0.86 | (.01) |
| General Revenues | | | |
| Property and Other Taxes | 5.29 | 6.20 | .91 |
| Unrestricted Grants | 7.09 | 7.11 | .02 |
| Investment Earnings | 0.09 | 0.18 | .09 |
| Other | 0.11 | 0.08 | (.03) |
| Total Revenues | <u>\$14.94</u> | <u>\$16.06</u> | <u>\$1.12</u> |

Table 3 shows total program expenses for fiscal years 2005 and 2006.

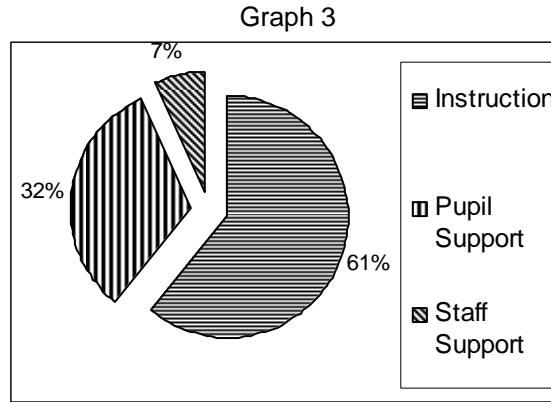
**Table 3
Total Program Expenses
(in millions)**

| | <u>2005</u> | <u>2006</u> | <u>Change</u> |
|--------------------------------|---------------|---------------|---------------|
| Program Expenses | | | |
| Instruction | | | |
| Regular | \$6.79 | \$7.53 | \$.74 |
| Special | 1.64 | 1.87 | 0.23 |
| Other | 0.69 | 0.00 | (0.69) |
| Support Services: | | | |
| Pupil/Staff | 1.41 | 1.09 | (0.32) |
| Administration | 1.55 | 1.56 | 0.01 |
| Maintenance | \$1.25 | \$1.31 | \$0.06 |
| Transportation | 0.98 | 0.99 | 0.01 |
| Other | 0.04 | 0.03 | (0.01) |
| Food Services/Latchkey | 0.51 | 0.57 | 0.06 |
| Extracurricular Activities | 0.41 | 0.42 | 0.01 |
| Loss on Disposal of Cap Assets | 0.01 | 0.04 | 0.03 |
| Interest and Fiscal Charges | 0.05 | 0.05 | 0.00 |
| Total Expenses | <u>15.33</u> | <u>15.46</u> | <u>0.13</u> |
| Change in Net Assets | (0.39) | 0.60 | .99 |
| Beginning Balance | 8.66 | 8.27 | (.39) |
| Ending Balance | <u>\$8.27</u> | <u>\$8.87</u> | <u>\$.60</u> |

**NORTHWESTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

**MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE PERIOD ENDED JUNE 30, 2006
(UNAUDITED)
(Continued)**

Graph 3 shows a breakdown of Fiscal Year 2006 expenditures by percentages in the major categories.



Capital Assets

At the end of the fiscal year, the District had \$6,885,308 invested in land, buildings, equipment, and vehicles net of accumulated depreciation. For more detail information about the capital assets, refer to Note 8. Table 4 shows the breakdown of the individual classes for capital assets:

**Table 4
Capital Assets**

| <u>Class</u> | <u>Historical Cost</u> | <u>Accumulated Depreciation</u> | <u>Book Value</u> |
|----------------------------|------------------------|---------------------------------|--------------------|
| Land and Improvements | \$919,999 | \$23,556 | \$896,443 |
| Buildings and Improvements | 10,893,255 | 5,874,051 | 5,019,204 |
| Furniture and Equipment | 2,263,192 | 1,650,927 | 612,265 |
| Vehicles | 1,403,886 | 1,046,490 | 357,396 |
| Totals | <u>\$15,480,332</u> | <u>\$8,595,024</u> | <u>\$6,885,308</u> |

Debt Administration

The District has no long term general obligation debt. The District does have a capital lease for \$1,128,526 (principal and interest) for an addition to Northwestern Elementary. Eight additional classrooms and a gymnasium were added to the school. The lease was originated in 1998, and will be completely paid in December, 2013. For further information on the District's obligation refer to note 13 of the financial statements.

The Major Fund

The District's presentation of the major fund starts on page 15. This fund is accounted for using the modified accrual basis of accounting, focusing on the near term financial resources of the District. All governmental funds had total revenues of \$16.08 million and expenditures of \$15.16 million. The net change in fund balance for the year was an increase of \$.92 million in all funds. The net change was most significant in the General Fund with an increase of \$1.03 million.

The general fund recognized \$1.59 million in current liabilities for fiscal year 2006. Accrued salaries and benefits accounted for 69.53% of those liabilities. Taxes Receivable accounted for 99.87% of the \$5.52 million receivables in the general fund.

**NORTHWESTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

**MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE PERIOD ENDED JUNE 30, 2006
(UNAUDITED)
(Continued)**

General Fund Budgetary

Table 5 depicts the change from the original to the final general fund revenue budget for the fiscal year ended June 30, 2006.

**Table 5
Original Budget versus Final Budget for General Fund Revenues**

| | Budget | |
|--------------------------------|---------------------|---------------------|
| | Original | Final |
| Revenues | | |
| Property and Other Local Taxes | \$5,383,554 | \$5,560,131 |
| Intergovernmental | 6,870,470 | 7,095,817 |
| Other | 1,109,576 | 1,145,969 |
| Total Revenues | \$13,363,600 | \$13,801,917 |

The original revenue estimates come from the Tax Budget completed in January 2005. The County Auditor completes the tax estimates. The final amounts are higher mainly because the rates of collection for the two emergency levies were not rolled back as much as anticipated.

State revenue makes up the majority of the intergovernmental revenue. Prior to 2006, the school district only received open enrollment students from neighboring districts. The 2005 receipts reflect the impact of accepting students from any school districts. This was a significant increase in revenue.

Other revenues were up to due an increase in interest earnings. In addition to a higher than anticipated cash balance, over all interest rates increased significantly during the fiscal year.

Table 6 depicts the change from the original to the final general fund expenditure budget for the fiscal year ended June 30, 2006.

**Table 6
Original Budget versus Final Budget for General Fund Expenditures**

| | Budget | |
|---------------------------|---------------------|---------------------|
| | Original | Final |
| Expenditures | | |
| Instruction | \$8,493,053 | \$8,208,121 |
| Support Services | 4,983,292 | 4,989,398 |
| Other | 334,801 | 334,651 |
| Total Expenditures | \$13,811,146 | \$13,532,170 |

The original budget comes for the Tax Budget filed in January of 2005. Traditionally the tax budget expenditures include all possible needs for the future year.

There were some significant variances from the final budget to actual expenditures. The largest variances were in regular instruction. Most teaching employees' salaries and benefits are paid from regular instruction. In addition to staff reductions, medical insurance rates declined by 7.5%. These changes accounted for the majority of the variance.

**NORTHWESTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

**MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE PERIOD ENDED JUNE 30, 2006
(UNAUDITED)
(Continued)**

For the Future

At this time, the District is financially stable. The district is proud of its community support of the public schools. During 2005, the District residents approved the renewal two emergency levies.

During November, 2003 a bond issue to replace the Middle School and an addition to the High School failed. Replacement of the Middle School is an issue the school district will face in the future. This is one several issues currently being discussed in community meetings.

The latest budget bill from the State of Ohio (HB 66) includes the gradual elimination of most personal property taxes. Under current legislation, the school district should receive an increase in revenue from the state to nearly equal the loss in local revenue from the elimination of the personal property taxes. It is too soon to tell the true of effects of this change over the next several years.

In conclusion, the Northwestern Local School District has committed itself to financial excellence for many years. The current request for additional operating funds is the first request for additional funds since 1992. The District's system of financial planning, budgeting, and internal financial controls are well regarded. The District plans to continue its sound fiscal management to meet the challenges of the future.

Contacting the School District's Financial Management

This financial report is designed to provide our citizens, taxpayers, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information contact David Bollheimer, Office of the Treasurer, Northwestern Local Schools, 5610 Troy Road, Springfield, OH 45502.

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**NORTHWESTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

**STATEMENT OF NET ASSETS
JUNE 30, 2006**

| | Primary Government Governmental Activities |
|--|---|
| Assets | |
| Equity in Pooled Cash and Cash Equivalents | \$3,936,953 |
| Receivables: | |
| Property and Other Taxes | 5,655,490 |
| Accounts | 7,951 |
| Accrued Interest | 484 |
| Intergovernmental | 35,968 |
| Materials and Supplies Inventory | 51,677 |
| Prepaid Items | 4,876 |
| Restricted Cash and Cash Equivalents | 39,318 |
| Capital Assets (net of accumulated depreciation): | 6,885,308 |
| Total Assets | 16,618,025 |
| Liabilities | |
| Payables: | |
| Accounts | 13,169 |
| Intergovernmental | 425,395 |
| Salaries and Employee Benefits | 1,176,309 |
| Deferred Revenue | 4,475,904 |
| Noncurrent Liabilities: | |
| Due within one year | 256,664 |
| Due in more than one year | 1,399,102 |
| Total Liabilities | 7,746,543 |
| Net Assets | |
| Invested in capital assets, net of related debt | 5,945,308 |
| Restricted for: | |
| Perpetual Care | 3,940 |
| Grants | 3,847 |
| State Mandates | 39,318 |
| Capital Improvements | 366,419 |
| Unrestricted | 2,512,650 |
| Total Net Assets | \$8,871,482 |

See accompanying notes to the basic financial statements.

**NORTHWESTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

**STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

| Function/Programs | Expenses | Program Revenues | | Net (Expense) Revenue and Changes in Net Assets |
|------------------------------------|---------------------|-------------------------|--|--|
| | | Charges for Services | Operating Grants and Contributions | Governmental Activities |
| Governmental Activities: | | | | |
| Instruction: | | | | |
| Regular | \$7,533,307 | \$1,070,890 | \$48,116 | (\$6,414,301) |
| Special | 1,872,935 | | 595,688 | (1,277,247) |
| Other | 6,579 | 320 | | (6,259) |
| Support Services: | | | | |
| Pupils | 472,970 | | 10,311 | (462,659) |
| Instructional Staff | 620,475 | | 61,694 | (558,781) |
| Board of Education | 99,567 | | | (99,567) |
| Administration | 1,085,245 | | | (1,085,245) |
| Fiscal | 370,444 | | | (370,444) |
| Operation and Maintenance of Plant | 1,312,434 | | | (1,312,434) |
| Pupil Transportation | 988,574 | | | (988,574) |
| Central | 27,885 | | 4,304 | (23,581) |
| Food Service | 526,424 | 413,440 | 144,414 | 31,430 |
| Latchkey | 39,191 | 52,853 | | 13,662 |
| Loss on Disposal of Capital Assets | 35,198 | | | (35,198) |
| Extracurricular Activities | 421,625 | 96,955 | | (324,670) |
| Interest and Fiscal Charges | 47,970 | | | (47,970) |
| Total Primary Government | <u>\$15,460,823</u> | <u>\$1,634,458</u> | <u>\$864,527</u> | <u>(12,961,838)</u> |

General Revenues:

| | |
|--|---------------------------|
| Property Taxes | 6,198,562 |
| Grants and Contributions not restricted to specific programs | 7,111,055 |
| Unrestricted investment earnings | 179,280 |
| Miscellaneous | 76,380 |
| Total General Revenues | <u>13,565,277</u> |
| Changes in Net Assets | 603,439 |
| Net Assets-Beginning | <u>8,268,043</u> |
| Net Assets-Ending | <u><u>\$8,871,482</u></u> |

See accompanying notes to the basic financial statements.

**NORTHWESTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

**BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2006**

| | <u>General</u> | <u>Other Governmental Funds</u> | <u>Total Governmental Funds</u> |
|--|--------------------|---|---|
| Assets and Other Debits | | | |
| Assets | | | |
| Equity in Pooled Cash and Cash Equivalents | \$3,367,909 | \$569,044 | \$3,936,953 |
| Receivables: | | | |
| Property and Other Taxes | 5,517,798 | 137,692 | 5,655,490 |
| Accounts | 6,451 | 1,500 | 7,951 |
| Interfund | 256 | | 256 |
| Accrued Interest | 484 | | 484 |
| Intergovernmental | | 35,968 | 35,968 |
| Prepaid Items | 4,876 | | 4,876 |
| Materials and Supplies Inventory | 45,287 | 6,390 | 51,677 |
| Restricted Assets: | | | |
| Cash and Cash Equivalents | 39,318 | | 39,318 |
| | <u>8,982,379</u> | <u>750,594</u> | <u>9,732,973</u> |
| Total Assets | <u>\$8,982,379</u> | <u>\$750,594</u> | <u>\$9,732,973</u> |
| Liabilities and Fund Balances | | | |
| Liabilities | | | |
| Payables: | | | |
| Accounts | \$12,826 | \$343 | \$13,169 |
| Due to Local Governments | 384,412 | 40,983 | 425,395 |
| Salaries and Employee Benefits | 1,104,028 | 72,281 | 1,176,309 |
| Interfund | | 256 | 256 |
| Matured Leave Payable | 86,504 | | 86,504 |
| Deferred Revenue | 4,382,985 | 101,997 | 4,484,982 |
| | <u>5,970,755</u> | <u>215,860</u> | <u>6,186,615</u> |
| Total Liabilities | <u>5,970,755</u> | <u>215,860</u> | <u>6,186,615</u> |
| Fund Balances: | | | |
| Designated for: | | | |
| Budget Stabilization | 162,113 | | 162,113 |
| Reserved for: | | | |
| Encumbrances | 38,390 | 1,724 | 40,114 |
| Inventory | 45,287 | | 45,287 |
| Contributions | | 3,940 | 3,940 |
| Property Taxes | 906,085 | 31,333 | 937,418 |
| Budget Stabilization | 39,318 | | 39,318 |
| Unreserved, reported in: | | | |
| General | 1,820,431 | | 1,820,431 |
| Special Revenue | | 161,760 | 161,760 |
| Capital Projects | | 335,086 | 335,086 |
| Permanent Fund | | 891 | 891 |
| | <u>3,011,624</u> | <u>534,734</u> | <u>3,546,358</u> |
| Total Fund Balances | <u>3,011,624</u> | <u>534,734</u> | <u>3,546,358</u> |
| Total Liabilities and Fund Balances | <u>\$8,982,379</u> | <u>\$750,594</u> | <u>\$9,732,973</u> |

See accompanying notes to the basic financial statements.

**NORTHWESTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

**RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSET OF GOVERNMENTAL ACTIVITIES**

| | |
|---|----------------------------------|
| Total Governmental Fund Balances | \$3,546,358 |
| 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. | 6,885,308 |
| Some of the School District's revenues will be collected after fiscal year-end, but are not available soon enough to pay for the current period's expenditures and therefore are deferred in the funds. | 9,078 |
| Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds. | <u>(1,569,262)</u> |
| Net Assets of Governmental Activities | <u><u>\$8,871,482</u></u> |

See accompanying notes to the basic financial statements.

**NORTHWESTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED YEAR JUNE 30, 2006**

| | <u>General</u> | <u>Other Governmental Funds</u> | <u>Total Governmental Funds</u> |
|--|--------------------|---|---|
| Revenues: | | | |
| Property and Other Taxes | \$6,033,392 | \$165,170 | \$6,198,562 |
| Intergovernmental | 7,093,294 | 894,980 | 7,988,274 |
| Charges for Services | | 413,950 | 413,950 |
| Tuition and Fees | 955,529 | 62,070 | 1,017,599 |
| Interest | 177,691 | 1,589 | 179,280 |
| Rent | 4,553 | | 4,553 |
| Gifts and Donations | 2,500 | | 2,500 |
| Extracurricular Activities | | 202,855 | 202,855 |
| Miscellaneous | 11,968 | 57,359 | 69,327 |
| Total Revenues | <u>14,278,927</u> | <u>1,797,973</u> | <u>16,076,900</u> |
| Expenditures: | | | |
| Current: | | | |
| Instruction: | | | |
| Regular | 6,976,627 | 242,130 | 7,218,757 |
| Special | 1,185,699 | 623,625 | 1,809,324 |
| Adult Education | | 846 | 846 |
| Other | 5,733 | | 5,733 |
| Support Services: | | | |
| Pupils | 459,474 | 13,663 | 473,137 |
| Instructional Staff | 610,021 | 60,130 | 670,151 |
| Board of Education | 99,567 | | 99,567 |
| Administration | 1,073,605 | 30 | 1,073,635 |
| Fiscal | 362,317 | 2,808 | 365,125 |
| Operation and Maintenance of Plant | 1,170,214 | 20,670 | 1,190,884 |
| Pupil Transportation | 968,289 | | 968,289 |
| Central | 21,527 | 5,550 | 27,077 |
| Operation of Non-Instructional Services | | 564,897 | 564,897 |
| Extracurricular Activities | 313,121 | 111,395 | 424,516 |
| Capital Outlay | | 119,854 | 119,854 |
| Debt Service: | | | |
| Principal Retirement | | 100,000 | 100,000 |
| Interest and Fiscal Charges | | 47,970 | 47,970 |
| Total Expenditures | <u>13,246,194</u> | <u>1,913,568</u> | <u>15,159,762</u> |
| Deficiency of Revenues Under Expenditures | 1,032,733 | (115,595) | 917,138 |
| Other Financing Sources (Uses): | | | |
| Sale of Capital Assets | 255 | | 255 |
| Total Other Financing Sources (Uses) | <u>255</u> | | <u>255</u> |
| Net Change in Fund Balances | 1,032,988 | (115,595) | 917,393 |
| Fund Balances - beginning | 1,974,464 | 650,329 | 2,624,793 |
| Increase in Inventory | 4,172 | | 4,172 |
| Fund Balances - ending | <u>\$3,011,624</u> | <u>\$534,734</u> | <u>\$3,546,358</u> |

See accompanying notes to the basic financial statements.

**NORTHWESTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF ACTIVITIES**

| | |
|---|-------------------------|
| Net Change in Governmental Fund Balances | \$917,393 |
| Amounts reported in 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 and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period. | (331,488) |
| Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. | (8,466) |
| Repayment of long-term obligations is reported as an expenditure in governmental funds, the the repayment reduces long-term liabilities in the statement of net assets. In the current year, this amount is: | 100,000 |
| Some items reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures/revenues in governmental funds. | <u>(74,000)</u> |
| Change in net assets of governmental activities | <u><u>\$603,439</u></u> |

See accompanying notes to the basic financial statements.

**NORTHWESTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET (NON-GAAP BASIS) AND ACTUAL -
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

| | General Fund | | | Variance with Final Budget Positive (Negative) |
|---|-------------------------|--------------------|--------------------|---|
| | Budgeted Amounts | | Actual | |
| | Original | Final | | |
| Revenues: | | | | |
| Property and Other Local Taxes | \$5,383,554 | \$5,560,131 | \$5,560,131 | |
| Intergovernmental | 6,870,470 | 7,095,817 | 7,095,817 | |
| Tuition and Fees | 925,087 | 955,429 | 955,429 | |
| Interest | 166,217 | 171,669 | 171,669 | |
| Rent | 4,408 | 4,553 | 4,553 | |
| Gifts and Donations | 2,421 | 2,500 | 2,500 | |
| Miscellaneous | 11,443 | 11,818 | 11,818 | |
| Total Revenues | 13,363,600 | 13,801,917 | 13,801,917 | |
| Expenditures: | | | | |
| Current: | | | | |
| Instruction: | | | | |
| Regular | 7,245,271 | 7,012,751 | 6,959,911 | \$52,840 |
| Special | 1,240,559 | 1,184,025 | 1,155,700 | 28,325 |
| Other | 7,223 | 11,345 | 5,226 | 6,119 |
| Support Services: | | | | |
| Pupils | 489,460 | 492,692 | 464,098 | 28,594 |
| Instructional Staff | 653,937 | 652,181 | 642,200 | 9,981 |
| Board of Education | 97,226 | 103,476 | 99,282 | 4,194 |
| Administration | 1,076,012 | 1,072,111 | 1,046,029 | 26,082 |
| Fiscal | 377,274 | 377,274 | 365,147 | 12,127 |
| Operation and Maintenance of Plant | 1,252,022 | 1,244,643 | 1,212,352 | 32,291 |
| Pupil Transportation | 1,014,371 | 1,024,031 | 966,345 | 57,686 |
| Central | 22,990 | 22,990 | 21,527 | 1,463 |
| Extracurricular Activities | 334,801 | 334,651 | 313,122 | 21,529 |
| Capital Outlay | | | | 0 |
| Total Expenditures | 13,811,146 | 13,532,170 | 13,250,939 | 281,231 |
| Excess of Revenues Over (Under) Expenditures | (447,546) | 269,747 | 550,978 | 281,231 |
| Other Financing Sources (Uses): | | | | |
| Proceeds from Sale of Capital Assets | | 255 | 255 | |
| Refund of Prior Year Expenditures | 7,739 | 7,992 | 7,992 | |
| Advances In | 30,899 | 31,912 | 31,912 | |
| Advances Out | (10,000) | (10,000) | (256) | 9,744 |
| Transfers Out | (10,000) | (10,000) | | 10,000 |
| Total Other Financing Sources (Uses) | 18,638 | 20,159 | 39,903 | 19,744 |
| Net Change in Fund Balance | (428,908) | 289,906 | 590,881 | 300,975 |
| Fund Balances at Beginning of Year | 2,708,101 | 2,708,101 | 2,708,101 | |
| Prior Year Encumbrances Appropriated | 56,680 | 56,680 | 56,680 | |
| Fund Balance at End of Year | \$2,335,873 | \$3,054,687 | \$3,355,662 | \$300,975 |

See accompanying notes to the basic financial statements.

**NORTHWESTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

**STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES -
FIDUCIARY FUNDS
JUNE 30, 2006**

| | <u>Agency</u> |
|--|-----------------|
| Assets | |
| Equity in Pooled Cash and Cash Equivalents | <u>\$26,234</u> |
| Liabilities | |
| Due to Students | <u>26,234</u> |
| Total Liabilities | <u>\$26,234</u> |

See accompanying notes to the basic financial statements.

**NORTHWESTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

1. DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

Northwestern 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 is located in Clark County. It is staffed by 72 non-certificated employees, 111 certificated full-time teaching personnel and 12 administrative employees who provide services to 1,866 students and other community members.

The reporting entity is comprised of the primary government, component units, and other organizations that are included to insure that the financial statements of the School District are not misleading. The primary government consists of all funds, departments, boards, and agencies that are not legally separate from the School District. For Northwestern Local School District, this includes general operations, food service, preschool 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 School District is associated with four jointly governed organizations and one insurance purchasing pool. These organizations are discussed in Note 16 to the basic financial statements. These organizations are:

Jointly Governed Organizations:

Miami Valley Educational Computer Association
Southwestern Ohio Educational Purchasing Council
Southwestern Ohio Instructional Technology Association
Clark County Family and Children First Council

Insurance Purchasing Pool:

Southwestern Ohio Educational Purchasing Council Workers'
Compensation Group Rating Plan

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

**NORTHWESTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government. The effect of interfund activity has been removed from these statements. *Governmental activities*, normally are supported by taxes and intergovernmental revenues.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program Revenues* include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds and fiduciary fund, even though the latter is excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within sixty days of the end of the fiscal period. Expenditures generally are recorded when a liability is expected to be liquidated with expendable, available resources. However, debt expenditures for the capital lease, as well as compensated absences, are recorded only when payment is due.

Property taxes, grants and entitlements, tuition, fees and interest associated with the current fiscal period are all considered to susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered measurable and available only when cash is received by the District.

B. Fund Accounting

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

**NORTHWESTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1. Governmental Funds

Governmental funds are those through which most governmental functions typically are financed. Governmental funds 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 District reports the following major governmental fund:

The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

2. Fiduciary Fund

Fiduciary fund reporting focuses on net assets and changes in net assets. The District maintains only one fiduciary fund, an agency fund known as the Student Activities Fund. The fund was established to account for revenues generated by student managed activities. The District's agency fund is custodial in nature (assets equal liabilities) and reported on the accrual basis of accounting; however, it does not have a measurement focus.

When both restricted and unrestricted resources are available for use, it is the District's policy to use the restricted resources first, then unrestricted resources as they are needed.

C. Budgetary Process

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriation resolution, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriations resolution are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified.

All funds, other than agency funds, are legally required to be budgeted and appropriated. The Board of Education determines the District's legal level of control through passage of the appropriation resolution, which was at the object level for the General Fund and at the fund level for all other funds. Any budgetary modifications at this level may only be made by resolution of the Board of Education.

1. Tax Budget:

Prior to January 15, the Superintendent and Treasurer submit to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing for all funds. Public hearings are publicized and conducted to obtain taxpayers' comments. The express purpose of this budget document is to reflect the need for existing (or increased) tax rates. By no later than January 20, the Board-adopted budget is filed with the Clark County Budget Commission for rate determination.

**NORTHWESTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2. Estimated Resources:

Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the County Budget Commission and receives the Commission's certificate of estimated resources which states the projected revenue of each fund. Prior to June 30, the School District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the certificate of estimated resources. The revised budget then serves as the basis for the appropriation measure. On or about July 1, the certificate is amended to include any unencumbered cash balances from the preceding year. The certificate may be further amended during the year if projected increases or decreases in revenue are identified by the School District Treasurer. The amounts reported in the budgetary statement reflect the amounts in the final amended certificate that was in effect at the time the final appropriations were passed by the Board of Education. Prior to year-end, the School District requested and received an amended certificate of estimated resources that reflected actual revenue for the fiscal year.

3. Appropriations:

Upon receipt from the County Auditor of an amended certificate of estimated resources based on final assessed values and tax rates or a certificate saying no new certificate is necessary, the annual appropriation resolution is legally enacted by the Board of Education. The Board of Education determines the District's legal level of control through passage of the appropriation resolution, which was at the object level for the General Fund and at the fund level for all other funds. Prior to the passage of the annual appropriation measure, the Board may pass a temporary appropriation measure to meet the ordinary expenses of the School District. The appropriation resolution, by fund, must be within the estimated resources as certified by the County Budget Commission. Some revisions that alter the total of any fund appropriation, or alter total function appropriations within a fund must be approved by the Board of Education. The Board may pass supplemental fund appropriations so long as the total appropriations by fund do not exceed the amounts set forth in the most recent certificate of estimated resources.

During the year, eight supplemental appropriations were legally enacted; however, none of them were significant. The budget figures that appear in the statement of budgetary comparisons represent the final appropriation amounts, including all supplemental appropriations. The treasurer has been given the authority to further allocate appropriations to objects within each fund and function. Formal budgetary integration is employed as a management control device during the year for all funds other than agency funds, consistent with statutory provisions.

4. Lapsing of Appropriations:

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

**NORTHWESTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Cash and Cash Equivalents

To improve cash management, all cash received by the School District is pooled in a central bank account. Monies for all funds are maintained in this account or temporarily used to purchase short-term investments. 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 statement of net assets and governmental fund balance sheet.

During fiscal year 2006, the School District's investments were limited to funds invested in the State Treasury Assets Reserve of Ohio (STAR Ohio), Federal Home Loan Bank Notes, Federal National Mortgage Association Notes, Federal Home Loan Mortgage Corporation Discount Notes, Federal National Mortgage Association Discount Notes, and First America Treasury Market Fund.

STAR Ohio is an investment pool managed by the State Treasurer's Office that allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price that is the price the investment could be sold for on June 30, 2006.

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 2006 amounted to \$177,691 which includes \$26,276 assigned from other funds. The food service special revenue fund and permanent fund received \$1,395 and \$194 respectively, in interest.

E. Inventory

Inventories of all funds are stated at cost. Cost is determined on a first-in, first-out basis. Inventory consists of expendable supplies held for consumption. The cost of inventory items is recorded as expenditure when purchased. Reported material and supplies inventory is equally offset by a fund balance reserve on the governmental fund balance sheet which indicates that it does not constitute available expendable resources even though it is a component of net current assets.

F. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2006, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

G. Capital Assets and Depreciation

Capital assets, which include property, plant, equipment, and vehicles are reported on the government-wide 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 have 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 capitalized. Interest incurred during the construction of capital assets is also not capitalized.

**NORTHWESTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Depreciation of furniture and equipment is computed using the straight-line method over an estimated useful life of ten years, with building improvements being depreciated over twenty years and buildings over fifty years. Improvements to fund capital assets are depreciated over the remaining useful lives of the related assets.

H. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the School District will compensate the employees for the benefits through paid time off or some other means. The School District records a liability for accumulated unused vacation time when earned for all employees with more than one year of service.

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

For governmental funds, the current portion of unpaid compensated absences is the amount normally due for payment during the current year. Matured leave payable in the fund financial statements represents the entire current portion. These amounts are reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements. The entire liability is reported on the government-wide statement of net assets.

I. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and other long-term obligations are reported on the government-wide financial statements. In general, governmental fund payables and accrued liabilities are reported as obligations of the funds regardless of whether they will be liquidated with current resources. However, compensated absences are reported as liabilities in the fund financial statements only to the extent they will not be paid with current expendable available financial resources. In general, amounts paid more than sixty days after year-end are considered not to have been paid using current available financial resources.

J. Interfund Transactions

Exchange transactions between funds are reported as revenues in the seller fund and as expenditures in the purchase funds. Flows of cash or goods from one fund to another without requirement for repayment are reported as interfund transfers. Repayments from funds responsible for particular expenditures to the funds that initially paid for them are not presented on the financial statements.

K. Deferred Revenues

Deferred revenues arise 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, 2006, but which were levied to finance fiscal year 2007 operations, have been recorded as deferred revenues. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenues.

On governmental fund financial statements, receivables that will not be collected with the available period have also been reported as deferred revenue.

**NORTHWESTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

L. Exchange/Non-Exchange Transactions

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

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 6). Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the School District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

M. Restricted Assets

Restricted assets in the general fund are cash and cash equivalents whose use is limited by legal requirements. Restricted assets represent resources required by statute to be set-aside by the School District to create a reserve for budget stabilization. See Note 18 for the calculation of the year-end restricted asset balance and the corresponding fund balance reserve.

N. Fund Balance Reserves

The School District reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity that is available for appropriation in future periods. Fund equity reserves have been established for encumbrances, inventory, contributions, property taxes, and budget stabilization.

The reserve for property taxes represents taxes recognized as revenue under generally accepted accounting principles but not available for appropriation under State statute. The reserve for budget stabilization represents money required to be set-aside by statute to protect against cyclical changes in revenues and expenditures. The reserve for contributions signifies the legal restrictions on the use of principal.

O. Fund Designations

The School District designates fund balance to indicate tentative planned expenditures of financial resources. The designations reflect the school district's intentions, are subject to change and are reported as part of unreserved fund balance. Fund designations are established for budget stabilization.

The designation for budget stabilization represents money set-aside for budget stabilization in excess of statutory requirements.

**NORTHWESTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

P. Net Assets

Net assets represent the difference between assets and liabilities in the statements of net assets. Net assets invested in capital assets are calculated, net of accumulated depreciation and reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement 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.

Q. Estimates

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

R. Reconciliation of government-wide and fund financial statements

Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net assets.

The governmental fund balance sheets includes a reconciliation between *fund balance – total governmental funds* and *net assets – governmental activities* as reported in the government-wide statement of net assets. One element of that reconciliation explains that “long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.” The details of this (\$1,569,262) difference are as follows:

| | |
|---|---------------|
| Capital Lease Payable | (\$940,000) |
| Compensated Absences | (629,262) |
| Net Adjustment to reduces <i>fund balance – total governmental funds</i> to arrive at <i>net assets – governmental activities</i> | (\$1,569,262) |

Another element of that reconciliation explains that “capital assets used in governmental activities are not financial resources and, therefore, are not reported in the fund.” The details of the \$6,885,308 difference are as follows:

| | |
|--|--------------|
| Capital Assets | \$15,480,332 |
| Accumulated Depreciation | (8,595,024) |
| Net Adjustment to increase <i>fund balance – total governmental funds</i> to arrive at <i>net assets – governmental activities</i> | \$6,885,308 |

Another element of that reconciliation states that “Capital additions are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense.” The details of this (\$331,488) are as follows:

**NORTHWESTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

| | |
|---|-------------|
| Current Capital Additions | \$231,343 |
| Depreciation Expense | (527,378) |
| Loss on Disposal of Capital Assets | (35,453) |
| Net Adjustment – capital assets to increase <i>fund balance</i> – <i>total governmental funds</i> to arrive at <i>net assets</i> – <i>governmental activities</i> | (\$331,488) |

Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities.

Another element of the reconciliation states that “Revenues in the statement of activities that do not provide current financial resources are not reported as revenue in the funds.” The details of the \$(8,466) are as follows:

| | |
|---|-----------|
| Increase in Consumable Inventory | \$4,172 |
| Change in Grant Revenue | (12,638) |
| Net Adjustment – revenues that do not provide current financial resources | (\$8,466) |

3. ACCOUNTABILITY AND COMPLIANCE

At June 30, 2006, the Adult Education, Entry Year Teachers, Ohio Reads, IDEA, Title I, Title V, and Early Childhood special revenue funds have deficit fund balances of \$259, \$36, \$117, \$1,068, \$226, \$52, and \$409 respectively.

The General Fund is liable for any deficit in the Entry Year Teachers, Ohio Reads, IDEA, Title I, Title V, and Early Childhood special revenue funds and provides transfers to cover deficit balances; however, this is done when cash is needed rather than when accruals occur.

The result of the deficit in the Adult Education special revenue fund is the result of revenues not covering operational costs in previous years. The School District will continue to monitor these deficits and take appropriate actions if necessary.

4. BUDGETARY BASIS OF ACCOUNTING

While the School District is reporting financial position, results of operations, and changes in fund balances on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances.

The Statement of Revenues, Expenditures and Changes in Fund Balances - Budget (Budget Basis) and Actual – General Fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and GAAP basis are that:

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).

**NORTHWESTERN LOCAL SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

4. BUDGETARY BASIS OF ACCOUNTING (Continued)

3. Encumbrances are treated as expenditures/expenses for all funds (budget basis) rather than as a reservation of fund balance.
4. Advances-in and advances-out are operating transactions (budget basis) as opposed to balance sheet transactions (GAAP basis).

The following tables summarize the adjustments necessary to reconcile the GAAP and budgetary basis statements by fund type:

| Net Change in Fund Balances - General Fund | |
|---|----------------|
| | General |
| GAAP Basis: | \$1,032,988 |
| Revenue Accruals | (437,106) |
| Expenditure Accruals | 41,222 |
| Encumbrances | (45,967) |
| Advances | (256) |
| Budget Basis | \$590,881 |

5. 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 two-year period of designation of depositories.

Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by, but not limited to, time certificates of deposit maturing not more than one year from the date of deposit, or must evidence interim deposits by savings or deposit accounts including passbook accounts.

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

**NORTHWESTERN LOCAL SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

5. DEPOSITS AND INVESTMENTS (Continued)

State statute permits interim monies to be deposited or invested in the following securities:

1. United States treasury notes, bills, bonds, or any other obligation or security issued by the United States treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes debentures, or any other obligations or 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 issuance of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio); and
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred eighty days from the date of purchase in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time.

Investments in stripped principal or interest obligation, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the School District, and must be purchased with the expectation that it will be held to maturity.

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

The following information classifies deposits and investments by categories of risk as defined in GASB Statement No. 3, "Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements."

**NORTHWESTERN LOCAL SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

5. DEPOSITS AND INVESTMENTS (Continued)

A. Deposits

At fiscal year end, the carrying amount of the School District's deposits was \$1,705,821 and the bank balance was \$2,393,399. \$271,183 was insured by federal depository insurance. Based on criteria described in GASB 40, "Deposits and Investment Risk Disclosures", as of June 30, 2006, \$2,122,216 of the School District's bank balance was exposed to custodial credit risk because it was uninsured and uncollateralized with securities held by the pledging financial institution's trust department or agent, but not in the School District's name.

The School District has no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the School District or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least one hundred five percent of the deposits being secured.

B. Investments

As of June 30, 2006, the School District had the following investments.

| <u>Investment Type</u> | <u>Fair Value</u> | <u>Maturity in Years</u> | |
|------------------------------------|--------------------|-------------------------------|------------------------------|
| | | <u>Less than One Year</u> | <u>One to Five Years</u> |
| FHLB Notes | \$298,840 | \$99,250 | \$199,590 |
| FHLMC Discount Notes | 789,199 | 597,559 | 191,640 |
| FHLB Discount Notes | 324,155 | 324,155 | 0 |
| FNMA Discount Notes | 535,528 | 269,080 | 266,448 |
| First America Treasury Market Fund | 1,888 | 1,888 | 0 |
| STAR Ohio | 347,074 | 347,074 | 0 |
| Total Investments | <u>\$2,296,684</u> | <u>\$1,639,006</u> | <u>\$657,678</u> |

Interest Rate Risk - The School District has no investment policy that addresses interest rate risk. State statute requires that an investment mature within five years from the date of purchase, unless matched to a specific obligation or debt of the School District, and that an investment must be purchased with the expectation that it will be held to maturity.

Credit Risk - The Federal Home Loan Bank Notes carry a rating of Aaa/AAA and P-1/A-1. Federal National Mortgage Association Notes and Federal Home Mortgage Corporation Notes carry a rating of P-1/A-1. The First American Treasury Markey fund carries a Aaa from Moodys. STAR Ohio carries a AAAM rating from Standard and Poor's. The School District has no investment policy that would further limit its investment choices.

Custodial Credit Risk - For an investment, 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 Federal National Mortgage Association Notes and the Federal Home Loan Bank Bonds are exposed to custodial credit risk in that they are uninsured, unregistered, and held by the counterparty's trust department or agent but not in the School District's name. The School District has no investment policy dealing with investment custodial risk beyond the requirement in state statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the treasurer or qualified trustee.

**NORTHWESTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

5. DEPOSITS AND INVESTMENTS (Continued)

Concentration of Credit Risk - The School District places no limit on the amount it may invest in any one issuer. The School District's investment in Federal Home Loan Mortgage Corporation Discount Notes represent 34.4%, Federal National Mortgage Association Notes represent 22.9%, Federal Home Loan Bank Discount Notes represent 14.1% and Federal Home Loan Bank Notes represent 13.0% of the School District's total investments.

Cash and cash equivalents and investments are pooled for balance sheet classification on the basic financial statements because the pool consists of deposits, short-term investments or long-term investments that can be converted to liquid assets.

A reconciliation between the classifications of cash and investments on the fund financial statements and classification per GASB Statement No. 3 is as follows:

| | Cash and Cash Equivalents/Deposits | Investments |
|--|---|--------------------|
| Equity in Pooled Cash and Cash Equivalents | | |
| – Basic Financial Statements | \$4,002,505 | \$ 0 |
| Investments: | | |
| FHLB Notes | (298,840) | 298,840 |
| FHLMC Discount Notes | (789,199) | 789,199 |
| FHLB Discount Notes | (324,155) | 324,155 |
| FHLMA Discount Notes | (535,528) | 535,528 |
| First America Treasury Market Fund | (1,888) | 1,888 |
| STAR Ohio | (347,074) | 347,074 |
| GASB Statement No. 3 | \$1,705,821 | \$2,296,684 |

6. PROPERTY TAXES

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

Property taxes include amounts levied against all real, public utility and tangible personal property located in the School District. Property tax revenue received during calendar 2006 for real and public utility property taxes represents collections of calendar 2005 taxes. Property tax payments received during calendar 2006 for tangible personal property (other than public utility property) is for calendar 2006 taxes.

2006 real property taxes are levied after April 1, 2006, on the assessed value as of January 1, 2006, the lien date. Assessed values are established by State law at thirty-five percent of appraised market value.

Public utility tangible personal property currently is assessed at varying percentages of true value; public utility real property is assessed at thirty-five percent of true value. 2005 public utility property taxes became a lien December 31, 2005, are levied after April 1, 2006, and are collected in 2006 with real property taxes.

2006 tangible personal property taxes are levied after April 1, 2005, on the value as of December 31, 2005. Collections are made in 2006. Tangible personal property assessments are twenty-five percent of true value.

**NORTHWESTERN LOCAL SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

6. PROPERTY TAXES (Continued)

Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Tangible personal property taxes paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20.

The School District receives property taxes from Clark and Champaign Counties. The Clark 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, 2005, are available to finance fiscal year 2006 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable represent delinquent taxes outstanding and real property, personal property and public utility taxes, which became measurable as of June 30, 2006, and for which there is an enforceable 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 year operations. The receivable is therefore offset by a credit to deferred revenue for that portion not levied to finance current year operations. The total amount available as an advance at June 30, 2006 was \$937,418 and is recognized as revenue. \$906,085 was available to the general fund and \$31,333 was available to the permanent improvement capital projects fund.

The assessed values upon which fiscal year 2006 taxes were collected are:

| | 2005 Second- Half Collections | | 2006 First- Half Collections | |
|--|--|----------------|---|----------------|
| | Amount | Percent | Amount | Percent |
| Agricultural/Residential and Other Real Estate | \$183,988,990 | 89.36% | \$188,389,410 | 88.93% |
| Public Utility Personal | 6,418,380 | 3.12 | 6,157,540 | 2.90 |
| Tangible Personal Property | 15,494,168 | 7.52 | 17,297,524 | 8.17 |
| Total Assessed Value | <u>\$205,901,538</u> | <u>100.00%</u> | <u>\$211,844,474</u> | <u>100.00%</u> |
| Tax rate per \$1,000 of Assessed valuation | \$32.55 | | \$31.31 | |

7. RECEIVABLES

Receivables at June 30, 2006, consisted of property taxes, accounts (student fees), and intergovernmental grants. All receivables are considered collectible in full due.

A summary of the principal items of intergovernmental receivables follows:

| Intergovernmental Receivables: | Amount |
|---------------------------------------|-----------------|
| Non-major Governmental Funds | |
| IDEA | \$7,877 |
| Title I | 22,177 |
| Preschool | 941 |
| Title IIA | 4,558 |
| Title IID | 415 |
| Total | <u>\$35,968</u> |

**NORTHWESTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

8. CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2006, was as follows:

| | <u>Balance 7/01/05</u> | <u>Increases</u> | <u>Decreases</u> | <u>Balance 6/30/06</u> |
|--|----------------------------|--------------------|-------------------|----------------------------|
| Governmental Activities | | | | |
| Capital Assets, not being depreciated | | | | |
| Land | \$806,994 | \$113,005 | \$0 | \$919,999 |
| Capital Assets, being depreciated | | | | |
| Buildings and Improvements | 10,880,885 | 14,050 | (1,680) | 10,893,255 |
| Furniture and Equipment | 2,368,642 | 40,381 | (145,831) | 2,263,192 |
| Vehicles | 1,368,479 | 63,907 | (28,500) | 1,403,886 |
| Total at Historical Cost | <u>15,425,000</u> | <u>231,343</u> | <u>(176,011)</u> | <u>15,480,332</u> |
| Total Accumulated Depreciation | <u>(8,208,204)</u> | <u>(527,378)</u> | <u>140,558</u> | <u>(8,595,024)</u> |
| Governmental Activities | | | | |
| Capital Assets, Net | <u>\$7,216,796</u> | <u>(\$296,035)</u> | <u>(\$35,453)</u> | <u>\$6,885,308</u> |

Depreciation expense was charged to governmental functions as follows:

| | |
|------------------------------------|------------------|
| Instruction: | |
| Regular | \$276,317 |
| Special | 155 |
| Support Services: | |
| Pupils | 932 |
| Instructional Staff | 4,079 |
| Administration | 3,636 |
| Fiscal | 42 |
| Operation and Maintenance of Plant | 142,705 |
| Pupil Transportation | 84,468 |
| Central | 808 |
| Food Services | 2,263 |
| Extracurricular Activities | 11,973 |
| Total Depreciation Expense | <u>\$527,378</u> |

9. RISK MANAGEMENT

A. Property and Liability

The School District is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2006, the School District contracted with Marsh Insurance for property, general liability, professional and fleet insurance. Coverage provided by Marsh is as follows:

| | |
|---|--------------|
| Building and Contents-replacement cost (\$2,500 deductible) | \$50,000,000 |
| Boiler and Machinery (\$2,500 deductible) | 50,000,000 |
| Automobile Liability (\$1,000 deductible) | 1,000,000 |

**NORTHWESTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

9. RISK MANAGEMENT (Continued)

| | |
|---|-----------|
| Professional Liability (\$5,000 deductible) | |
| Single Occurrence | 1,000,000 |
| Aggregate | 3,000,000 |
| General Liability (no deductible) | |
| Per occurrence | 1,000,000 |
| Total per year (per member) | 1,000,000 |

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

B. Workers' Compensation

For fiscal year 2006, the School District participated in the Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan (GRP), a workers' compensation insurance purchasing pool (Note 16). The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund." This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Integrated Comp Inc. provides administrative, cost control, and actuarial services to the GRP.

10. DEFINED BENEFIT PENSION PLANS

A. 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 and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by 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 may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476 or by calling (614) 222-5853.

Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2006, 10.58 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2005, 10.57 percent was used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2006, 2005, and 2004, were \$185,310, \$193,024, and \$205,446 respectively; 45.89 percent has been contributed for fiscal year 2006 and 100 percent for fiscal years 2005 and 2004. \$100,276 representing the unpaid contribution for fiscal year 2006, is recorded as a liability within the respective funds and the full liability on the government-wide statement of net assets.

**NORTHWESTERN LOCAL SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

10. DEFINED BENEFIT PENSION PLANS (Continued)

B. State Teachers Retirement System

The School District contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer public employee retirement system. STRS provides retirement and disability benefits, annual cost-of-living adjustments, and death and survivor benefits to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information for STRS. That report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3371 or by calling (888) 227-7877.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5% of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan.

Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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. 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. For the fiscal year ended June 30, 2006 plan members are required to contribute 10% of their annual covered salary and the District is required to contribute 14%; 13% was the portion used to fund pension obligations. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory Authority for member and employer contributions. The District's contributions to STRS for the years ending June 30, 2006, 2005, and 2004, were \$882,800, \$863,987, and \$871,763 respectively; 83.07 percent has been contributed for fiscal year 2006 and 100 percent for the fiscal years 2005 and 2004. \$149,441 represents the unpaid contribution for fiscal year 2006 and is recorded as a liability within the respective funds and on statement of net assets. Contributions to the DC and Combined Plans for fiscal year 2006 were \$11,963 made by the School District and \$18,650 made by the plan members.

**NORTHWESTERN LOCAL SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

10. DEFINED BENEFIT PENSION PLANS (Continued)

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System of Ohio have an option to choose Social Security or the School Employees Retirement System. As of June 30, 2006, four members of the Board of Education have elected Social Security. The School District's liability is 6.2% of wages paid.

11. POSTEMPLOYMENT BENEFITS

The School District provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System (STRS), and to retired non-certified employees and their dependents through the School Employees Retirement System (SERS). Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare premiums. Benefit provisions and the obligations to contribute are established by the Systems based on authority granted by State statute. Both systems are on a pay-as-you-go basis.

All STRS benefit recipients and sponsored dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2006, the STRS Board allocated employer contributions equal to 1.0 percent of covered payroll to the Health Care Stabilization Fund. For the School District, this amount equaled \$67,250 for fiscal year 2006.

STRS pays health care benefits from the Health Care Stabilization Fund. At June 30, 2005, (the latest information available) the balance in the Fund was \$3.3 billion. At June 30, 2005, net health care costs paid by STRS were \$254.8 million and STRS had 115,395 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. Effective January 1, 2004, all retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility and retirement status. After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2006, employer contributions to fund health care benefits were 3.43 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2006, the minimum pay was established at \$35,800. For the School District, the amount contributed to fund health care benefits, including the surcharge, during the 2006 fiscal year equaled \$95,917.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of the annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2005 (the latest information available) were \$178,221,113. At June 30, 2005 SERS had net assets available for payment of health care benefits of \$267.5 million. SERS has 58,123 participants eligible to receive health care benefits.

**NORTHWESTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

12. 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 five to twenty-five days of vacation per fiscal year, depending upon length of service. Accumulated, unused vacation time is paid to classified employees and administrators. 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 classified personnel and 255 days for certified personnel. Upon retirement, payment is made for 25 percent for teachers and 25 percent for other employees of accrued, but unused sick leave credit to a maximum of 55 days for certified employees.

B. Insurance Benefits

The School District provides life insurance and accidental death and dismemberment insurance to most employees through Met Life. Medical/surgical benefits are provided through Anthem, dental and vision insurances through EPC Benefits Plan Trust.

13. CAPITAL LEASES - LESSEE DISCLOSURE

The District has entered into a capitalized lease for an addition to the Elementary School.

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 basic financial statements. These expenditures are reported as program/function expenditures on a budgetary basis.

Capital assets have been capitalized on the statement of net assets in the amount \$1,625,000 and a corresponding liability was recorded. This amount represents the present value of the minimum lease payments at the time of acquisition.

Principal payments in fiscal year 2006 totaled \$100,000.

The following is a schedule of the future long-term minimum lease payments required under the capital leases and the present value of the minimum lease payments as of June 30, 2006.

| Fiscal Year Ending June 30, | Capital Lease |
|---|---------------|
| 2007 | \$148,264 |
| 2008 | 148,210 |
| 2009 | 147,838 |
| 2010 | 147,168 |
| 2011 | 146,195 |
| 2012 – 2014 | 390,851 |
| Total | 1,128,526 |
| Less: Amount Representing Interest | (188,526) |
| Present Value of Net Minimum Lease Payments | \$940,000 |

**NORTHWESTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

13. CAPITAL LEASES - LESSEE DISCLOSURE (Continued)

The annual debt service requirements to maturity for the capital lease paid are as follows:

| Fiscal Year Ending June 30, | Governmental Activities | | |
|-----------------------------|-------------------------|------------------|--------------------|
| | Principal | Interest | Total |
| 2007 | \$105,000 | \$43,264 | \$148,264 |
| 2008 | 110,000 | 38,210 | 148,210 |
| 2009 | 115,000 | 32,838 | 147,838 |
| 2010 | 120,000 | 27,168 | 147,168 |
| 2011 | 125,000 | 21,195 | 146,195 |
| 2012 – 2014 | 365,000 | 25,851 | 390,851 |
| Total | <u>\$940,000</u> | <u>\$188,526</u> | <u>\$1,128,526</u> |

14. LONG-TERM LIABILITIES

The changes in the School District's long-term obligations (non-current liabilities) during fiscal year 2006 were as follows:

| | Amount Outstanding 6/30/05 | Additions | Deductions | Amount Outstanding 6/30/06 | Amounts Due in One Year |
|-------------------------|----------------------------------|------------------|------------------|----------------------------------|-------------------------------|
| Governmental Activities | | | | | |
| Capital Leases | \$1,040,000 | \$0 | \$100,000 | \$940,000 | \$105,000 |
| Compensated Absences | 621,549 | 518,253 | 424,036 | 715,766 | 151,664 |
| Total | <u>\$1,661,549</u> | <u>\$518,253</u> | <u>\$524,036</u> | <u>\$1,655,766</u> | <u>\$256,664</u> |

Capital leases will be paid from the Permanent Improvement Fund. Compensated absences will be paid from the fund from which the employees' salaries are paid.

The School District's overall legal debt margin was \$19,066,003 with an unvoted debt margin of \$211,844 and an energy conservation debt margin of \$1,906,600 at June 30, 2006.

15. INTERFUND ACTIVITY

Interfund balances at June 30, 2006, consist of the following individual receivables and payables and operating transfers in the governmental fund balance sheet (such amounts are removed in the statement of net assets):

| | Advances Outstanding 6/30/2005 | Advances Out | Advances In | Advances Outstanding 6/30/06 |
|-----------------|--------------------------------------|-----------------|-----------------|------------------------------------|
| General Fund | \$31,912 | \$256 | \$31,912 | \$256 |
| Non-Major Funds | (31,912) | 31,912 | 256 | (256) |
| Total All Funds | <u>\$0</u> | <u>\$32,168</u> | <u>\$32,168</u> | <u>\$0</u> |

The advance amounts will be returned in Fiscal Year 2007.

**NORTHWESTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

16. JOINTLY GOVERNED ORGANIZATIONS AND INSURANCE PURCHASING POOL

A. Jointly Governed Organizations

Miami Valley Educational Computer Association - The School District is a participant in the Miami Valley Educational Computer System (MVECA) which is a computer consortium. MVECA is an association of public schools within the boundaries of Clark, Clinton, Fayette, Greene and Highland Counties and Cities of Springfield, Wilmington, Washington Court House, Xenia and Hillsboro. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member districts.

The governing board of MVECA consists of three Superintendents and three Treasurers of member school districts, with three of the four Superintendents and all three Treasurers elected by a majority vote of all member school districts except the Greene County Career Center. The fourth Superintendent is from the Greene County Career Center. The School District paid MVECA \$43,266 for services provided during the year.

Financial information can be obtained from Angela Crandall, who serves as Executive Director, at 330 East Enon Road, Yellow Springs, Ohio 45387.

Southwestern Ohio Educational Purchasing Council -The Southwestern Ohio Educational Purchasing Council (SOEPC) is a purchasing cooperative made up of nearly 100 school districts in 12 counties. The purpose of the cooperative is to obtain prices for quality merchandise and services commonly used by schools. All member districts are obligated to pay all fees, charges, or other assessments as established by the SOEPC.

One year prior notice is necessary for withdrawal from the group. During this time, the withdrawing member is liable for all member obligations. Payments to SOEPC are made from the General Fund. During the fiscal year, the School District paid its medical, dental and vision insurances through the SOEPC. To obtain financial information, write to the Southwestern Ohio Educational Purchasing Cooperative, Robert Brown, who serves as Director, at 1831 Harshman Road, Dayton, Ohio 45424.

Southwestern Ohio Instructional Technology Association - The Southwestern Ohio Instructional Technology Association (SOITA) is a not-for-profit corporation formed under Section 1702.01 of the Ohio Revised Code. The purpose of the corporation is to serve the educational needs of the area through television programming for the advancement of educational programs.

The Board of Trustees is comprised of twenty-one representatives of SOITA member schools or institutions. The qualified members within the counties, i.e. Auglaize, Butler, Champaign, Clark, Clinton, Darke, Fayette, Greene, Hamilton, Logan, Mercer, Miami, Montgomery, Preble, Shelby, and Warren. Montgomery, Greene and Butler Counties elect two representatives per area. One at-large non-public representative is elected by the non-public school SOITA members as the state-assigned SOITA service area representative. One at-large higher education representative is elected by higher education SOITA members from within state-assigned SOITA service area.

All member districts are obligated to pay all fees, charges, or other assessments as established by the SOITA. Upon dissolution, the net assets shall be distributed to the federal government, or to a state or local government, for a public purpose. Payments to SOITA are made from the General Fund. During the fiscal year, the School District did not make any payments to SOITA. To obtain financial information, write to the Southwestern Ohio Instructional Technology Association, Steve Strouse, who serves as Director, at 150 East Sixth Street, Franklin, Ohio 45005.

**NORTHWESTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

16. JOINTLY GOVERNED ORGANIZATIONS AND INSURANCE PURCHASING POOL (Continued)

Clark County Family and Children First Council – The Clark County Family and Children First Council (the Council) is a voluntary association established with the purpose to coordinate and integrate those services within Clark County which are available for families and children and to establish a comprehensive, coordinated, multi-disciplinary, interagency system for the delivery of such services in order to more effectively meet the needs of families and children.

The Board of Trustees is comprised of eighteen representatives of each of the members of the Council, including the Superintendent of the Clark County Educational Service Center, who was appointed by the Superintendents of the Clark County schools. All members are obligated to pay all dues as established by the Council to aid the financing of the operations and programs of the Council. The Northwestern Local School District does not pay any dues since the Clark County Educational Service Center represents the District. Any member withdrawing from the Council must give one hundred eighty days written notice to the Council after formal action of the member's governing board. To obtain financial information, write to the Clark County Family and Children First Council, Marilyn Demma, who serves as Treasurer, at 6 West High Street, Suite 500, Springfield, Ohio 45502.

B. Insurance Purchasing Pool

Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan - The School District participates in the Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool. The GRP's business and affairs are conducted by an eleven member Executive Committee consisting of the Chairperson, the Vice-Chairperson, a representative from the Montgomery County Educational Service Center and eight other members elected by majority vote of all member school districts. The Chief Administrator of GRP serves as the coordinator of the program. Each year, the participating school districts pay an enrollment fee to the GRP to cover the costs of administering the program.

17. CONTINGENCIES

A. Grants

The School District received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2006.

B. Litigation

At June 30, 2006 there were no pending cases.

**NORTHWESTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

18. SET-ASIDE CALCULATIONS AND FUND RESERVES

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 purchase of textbooks and other instructional materials and an equal amount for the acquisition and construction of capital improvements. Amounts not spent by year-end or offset by similarly restricted resources received during the year must be held in cash at year-end and carried forward to be used for the same purposes in future years. The School District is also required to set aside money for budget stabilization to the extent of Workers' Compensation refunds.

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

| | <u>Textbooks</u> | <u>Capital Acquisition</u> | <u>Budget Stabilization</u> |
|--|--------------------|--------------------------------|---------------------------------|
| Set-aside Cash Balance as of June 30, 2005 | (\$244,830) | (\$166,086) | \$39,318 |
| Current Year Set-aside Requirement | 272,763 | 272,763 | 0 |
| Current Year Offsets | 0 | (169,883) | 0 |
| Qualifying Disbursements | <u>(264,119)</u> | <u>(127,766)</u> | <u>0</u> |
| Totals | <u>(\$236,186)</u> | <u>(\$190,972)</u> | <u>\$39,318</u> |
| Reserve Balance Carried Forward to FY 2007 | (\$236,186) | (\$169,883) | \$0 |
| Restricted Cash as of June 30, 2006 | <u>\$0</u> | <u>\$0</u> | <u>\$39,318</u> |

Although the School District had qualifying disbursements during the year that reduced the capital acquisition and textbook set-aside amounts to below zero. The capital acquisition negative amount may only be carried forward to the extent of the proceeds from the Permanent Improvement property tax levy.

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**NORTHWESTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

**SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2006**

| Federal Grantor/ Pass Through Grantor Program Title | Pass Through Entity Number | Federal CFDA Number | Receipts | Disbursements |
|--|---|------------------------------------|-------------------------|-------------------------|
| UNITED STATES DEPARTMENT OF AGRICULTURE | | | | |
| Farm Subsidy Payments | N/A | | \$2,348 | \$2,348 |
| Food Donation | N/A | 10.550 | 19,978 | 19,978 |
| <i>Passed Through Ohio Department of Education:</i> | | | | |
| National School Lunch Program | LLP4-2005 | 10.555 | 17,821 | 17,821 |
| | LLP4-2006 | | 101,862 | 101,862 |
| Total National School Lunch Program | | | <u>119,683</u> | <u>119,683</u> |
| Total United States Department of Agriculture | | | <u>142,009</u> | <u>142,009</u> |
| UNITED STATES DEPARTMENT OF EDUCATION | | | | |
| <i>Passed Through Ohio Department of Education:</i> | | | | |
| Special Education_Grants to States | 6BSD-2004-5 | 84.027 | 3 | |
| | 6BSD-2006 | | 11,250 | 11,250 |
| | 6BSF-2005 | | 23,816 | 25,421 |
| | 6BSF-2006 | | 407,215 | 402,046 |
| Total Special Education Grants to State | | | <u>442,284</u> | <u>438,717</u> |
| Special Education_Preschool Grants | PGS1-2005 | 84.173 | 2,216 | 3,033 |
| | PGS1-2006 | | 13,522 | 12,317 |
| Total Special Education_Preschool Grants | | | <u>15,738</u> | <u>15,350</u> |
| Total Special Education Cluster | | | <u>458,022</u> | <u>451,034</u> |
| Title I Grants to Local Educational Agencies | C1S1-2005 | 84.010 | 20,956 | 23,596 |
| | C1S1-2006 | | 135,955 | 132,065 |
| Total Title I Grants to Local Educational Agencies | | | <u>156,911</u> | <u>155,661</u> |
| I Safe and Drug-Free Schools and Communities_State Grants | DRS1-2006 | 84.186 | 7,138 | 7,138 |
| State Grants for Innovative Programs | C2S1-2006 | 84.298 | 5,423 | 5,423 |
| Education Technology State Grants | TJS1-2006 | 84.318 | 2,403 | 2,113 |
| Improving Teacher Quality State Grants | TRS1-2005 | 84.367 | (451) | 7,832 |
| | TRS1-2006 | | 74,218 | 71,844 |
| Total Improving Teacher Quality State Grants | | | <u>73,767</u> | <u>79,676</u> |
| Total United States Department of Education | | | <u>703,664</u> | <u>704,078</u> |
| Totals Federal Financial Assistance | | | <u><u>\$845,673</u></u> | <u><u>\$846,087</u></u> |

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

**NORTHWESTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

**NOTES TO THE FEDERAL AWARDS EXPENDITURES SCHEDULE
FISCAL YEAR ENDED JUNE 30, 2006**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Federal Awards Expenditures Schedule (the Schedule) summarizes activity of the District's federal award programs. The schedule has been prepared on the cash basis of accounting.

NOTE B - CHILD NUTRITION CLUSTER

Program regulations do not require the District to maintain separate inventory records for purchased food and food received from the U.S. Department of Agriculture. This non-monetary assistance (expenditures) is reported in the Schedule at the fair market value of the commodities received.

Cash receipts from the U.S. Department of Agriculture are commingled with State grants. It is assumed federal monies are expended first.

NOTE C - MATCHING REQUIREMENTS

Certain Federal programs require that the District contribute non-Federal funds (matching funds) to support the Federally-funded programs. The District has complied with the matching requirements. The expenditure of non-Federal matching funds is not included on the Schedule.



**Auditor of State
Betty Montgomery**

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

Northwestern Local School District
Clark County
5610 Troy Road
Springfield, Ohio 45502

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 Northwestern Local School District (the District) as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements and have issued our report thereon dated January 3, 2007. 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 District's internal control over financial reporting to determine our auditing procedures in order to express our opinion on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses.

Compliance and Other Matters

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, 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 no instances of noncompliance or other matters we must report under *Government Auditing Standards*. However, in a separate letter to the District's management dated January 3, 2007, we reported a matter related to noncompliance we deemed immaterial.

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

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

Betty Montgomery
Auditor of State

January 3, 2007



Auditor of State Betty Montgomery

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

Northwestern Local School
Clark County
5610 Troy Road
Springfield,, Ohio 45502

To the Board of Education:

Compliance

We have audited the compliance of Northwestern Local School District (the District) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that apply to its major federal program for the year ended June 30, 2006. The summary of auditor's results section of the accompanying schedule of findings identifies the District's major federal program. The 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 District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; 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 types of 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 District'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 District's compliance with those requirements.

In our opinion, the District complied, in all material respects, with the requirements referred to above that apply to its major federal program for the year ended June 30, 2006.

Internal Control Over Compliance

The District's management is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the 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.

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**Internal Control Over Compliance
(Continued)**

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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



Betty Montgomery
Auditor of State

January 3, 2007

**NORTHWESTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2006**

1. SUMMARY OF AUDITOR'S RESULTS

| | | |
|---------------------|---|--|
| (d)(1)(i) | Type of Financial Statement Opinion | Unqualified |
| (d)(1)(ii) | Were there any material control weakness conditions reported at the financial statement level (GAGAS)? | No |
| (d)(1)(ii) | Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)? | No |
| (d)(1)(iii) | Was there any reported material noncompliance at the financial statement level (GAGAS)? | No |
| (d)(1)(iv) | Were there any material internal control weakness conditions reported for major federal programs? | No |
| (d)(1)(iv) | Were there any other reportable internal control weakness conditions reported for major federal programs? | No |
| (d)(1)(v) | Type of Major Programs' Compliance Opinion | No |
| (d)(1)(vi) | Are there any reportable findings under § .510? | No |
| (d)(1)(vii) | Major Programs (list): | CDFA #'s 84.027 & 84.173: Special Education Cluster |
| (d)(1)(viii) | Dollar Threshold: Type A/B Programs | Type A: > \$ 300,000 Type B: all others |
| (d)(1)(ix) | Low Risk Auditee? | Yes |

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

None.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None.



Mary Taylor, CPA
Auditor of State

NORTHWESTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
FEBRUARY 6, 2007