

Northwestern Local School District
Wayne County, Ohio
Audited Financial Statements

June 30, 2012



Dave Yost • Auditor of State

Board of Education
Northwestern Local School District
7571 N. Elyria Road
West Salem, Ohio 44287

We have reviewed the *Independent Auditor's Report* of the Northwestern Local School District, Wayne County, prepared by Rea & Associates, Inc., for the audit period July 1, 2011 through June 30, 2012. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them. In conjunction with the work performed by the Independent Public Accountant, the Auditor of State is issuing the following:

Finding for Recovery Repaid Under Audit

The accounting firm's testing revealed for the fiscal year ended June 30, 2012 Design Craft Builders, LLC. had a contract with the District to construct a new storage building. The District overpaid the contract by \$540, as a result of a processed change order. A purchase order was created for the change order and the original purchase order was modified for the additional amount. The District paid both the new purchase order and the additional amount on the changed original purchase order. Thus, the additional \$540 was paid twice.

In accordance with the foregoing facts and pursuant to Ohio Rev. Code Section 117.28, a Finding for Recovery for public monies illegally expended is hereby issued against Design Craft Builders, LLC in the amount of \$540 and in favor of the Northwestern Local School District's Permanent Improvement Fund.

Design Craft Builders, LLC repaid the finding for recovery to the Northwestern Local School District on August 6, 2012.

Board of Education
Northwestern Local School District
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Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Northwestern Local School District is responsible for compliance with these laws and regulations.

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

Dave Yost
Auditor of State

October 16, 2012

**NORTHWESTERN LOCAL SCHOOL DISTRICT
WAYNE COUNTY, OHIO**

JUNE 30, 2012

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August 10, 2012

Board of Education
Northwestern Local School District
Wayne County, Ohio
7571 N. Elyria Road
West Salem, OH 44287

Independent Auditor's Report

We have audited the accompanying financial statements of Northwestern Local School District, Wayne County, Ohio (the District) as of and for the year ended June 30, 2012. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion 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 that our audit provides a reasonable basis for our opinion.

Ohio Administrative Code Section 117-2-03 (B) requires the District to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America. However, as discussed in Note 1, the accompanying financial statements and notes have been prepared on an accounting basis not in accordance with these generally accepted accounting principles. The accompanying financial statements and notes omit entity wide statements, and assets, liabilities, fund equities, and disclosures that, while material, we cannot determine at this time.

In our opinion, because of the departure from generally accepted accounting principles described in the preceding paragraph, the accompanying financial statements do not present fairly the financial position and results of operations of the District as of and for the year ended June 30, 2012, in accordance with accounting principles generally accepted in the United States of America.

As described in Note 15, the District restated cash balances to account for the implementation of Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

The District also has not presented Management's Discussion and Analysis, which accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 10, 2012, 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.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis, as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. For reasons stated in the third paragraph, the financial statements do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the District, as of June 30, 2012, or its changes in financial position for the year then ended. Therefore we are unable to express, and we do not express, an opinion on the *Schedule of Expenditures of Federal Awards*.

Rea & Associates, Inc.

**NORTHWESTERN LOCAL SCHOOL DISTRICT
WAYNE COUNTY, OHIO
COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND CHANGES IN FUND CASH BALANCES
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED JUNE 30, 2012**

	Governmental Fund Types				Total (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects	
CASH RECEIPTS:					
Taxes	\$ 4,370,525	\$ 48,417	\$ 721,178	\$ 203,245	\$ 5,343,365
Intergovernmental	7,105,440	684,869	114,145	36,327	7,940,781
Investment Income	1,544	74	0	3,169	4,787
Tuition and Fees	876,554	0	0	0	876,554
Extracurricular Activities	142,827	168,901	0	0	311,728
Rentals	3,763	0	0	0	3,763
Miscellaneous	47,451	21,344	47,026	9,543	125,364
Total Cash Receipts	<u>12,548,104</u>	<u>923,605</u>	<u>882,349</u>	<u>252,284</u>	<u>14,606,342</u>
CASH DISBURSEMENTS:					
Instruction:					
Regular	5,399,928	26,964	0	0	5,426,892
Special	845,855	460,627	0	0	1,306,482
Vocational	592,429	0	0	0	592,429
Student Intervention Services	13,539	0	0	0	13,539
Other	371,287	0	0	0	371,287
Support Services:					
Pupils	513,343	0	0	0	513,343
Instructional Staff	611,420	149,995	0	0	761,415
Board of Education	45,171	15,074	0	0	60,245
Administration	877,879	27,816	0	0	905,695
Fiscal	300,236	16,295	13,663	3,934	334,128
Operation and Maintenance of Plant	1,115,517	214,403	0	0	1,329,920
Pupil Transportation	883,971	0	0	0	883,971
Central	37,740	16,105	0	0	53,845
Operation of Non-Instructional Services	1,200	0	0	0	1,200
Extracurricular Activities	337,488	193,727	0	0	531,215
Capital Outlay	0	0	0	271,172	271,172
Debt Service:					
Principal Retirement	0	0	505,000	0	505,000
Interest and Fiscal Charges	0	0	243,790	0	243,790
Refunding Bond Issuance Costs	0	0	34,118	0	34,118
Total Cash Disbursements	<u>11,947,003</u>	<u>1,121,006</u>	<u>796,571</u>	<u>275,106</u>	<u>14,139,686</u>
Cash Receipts Over/(Under) Cash Disbursements	601,101	(197,401)	85,778	(22,822)	466,656
OTHER FINANCING SOURCES (USES):					
Proceeds of Refunding Bonds	0	0	1,885,000	0	1,885,000
Payment to Refund Bond Escrow Agent	0	0	(1,935,945)	0	(1,935,945)
Premium on Refunding Bonds	0	0	57,564	0	57,564
Discount on Refunding Bonds	0	0	(19,527)	0	(19,527)
Operating Transfers In	0	43,000	0	0	43,000
Operating Transfers Out	(43,000)	0	0	0	(43,000)
Total Other Financing Sources (Uses)	<u>(43,000)</u>	<u>43,000</u>	<u>(12,908)</u>	<u>0</u>	<u>(12,908)</u>
Excess of Cash Receipts and Other Financing Sources Over/(Under) Cash Disbursements and Other Financing Uses	558,101	(154,401)	72,870	(22,822)	453,748
Fund Cash Balances, July 1, 2011 (Restated-See Note 15)	<u>2,493,912</u>	<u>312,208</u>	<u>1,722,315</u>	<u>104,754</u>	<u>4,633,189</u>
Fund Cash Balances, June 30, 2012:					
Restricted	0	157,807	1,795,185	81,932	2,034,924
Assigned	839,072	0	0	0	839,072
Unassigned (Deficit)	2,212,941	0	0	0	2,212,941
Total Fund Cash Balances, June 30, 2012:	<u>\$ 3,052,013</u>	<u>\$ 157,807</u>	<u>\$ 1,795,185</u>	<u>\$ 81,932</u>	<u>\$ 5,086,937</u>

See accompanying notes to the financial statements.

**NORTHWESTERN LOCAL SCHOOL DISTRICT
WAYNE COUNTY, OHIO
COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND CHANGES IN FUND CASH BALANCES
ALL PROPRIETARY FUND TYPES AND SIMILAR FIDUCIARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2012**

	Proprietary Fund Types		Fiduciary Fund Type		Total (Memorandum Only)
	Enterprise	Internal Service	Non Expendable Trust	Agency	
OPERATING CASH RECEIPTS:					
Food Services	\$ 264,936	\$ 0	\$ 0	\$ 0	\$ 264,936
Charges for Services	0	109,617	0	0	109,617
Investment Income	0	0	66	1	67
Other Operating Revenues	0	0	3,522	85,118	88,640
Total Operating Cash Receipts	<u>264,936</u>	<u>109,617</u>	<u>3,588</u>	<u>85,119</u>	<u>463,260</u>
OPERATING CASH DISBURSEMENTS:					
Salaries	195,520	0	0	0	195,520
Fringe Benefits	157,295	0	0	0	157,295
Purchased Services	36,945	124,129	0	0	161,074
Materials and Supplies	212,709	0	0	0	212,709
Capital Outlay	31,860	0	0	0	31,860
Other Operating Expenses	0	0	5,500	76,361	81,861
Total Operating Cash Disbursements	<u>634,329</u>	<u>124,129</u>	<u>5,500</u>	<u>76,361</u>	<u>840,319</u>
Operating Income (Loss)	<u>(369,393)</u>	<u>(14,512)</u>	<u>(1,912)</u>	<u>8,758</u>	<u>(377,059)</u>
NON OPERATING CASH RECEIPTS/(DISBURSEMENTS)					
Federal and State Subsidies	310,224	0	0	0	310,224
Interest	58	9	0	0	67
Total Non Operating Cash Receipts/(Disbursements)	<u>310,282</u>	<u>9</u>	<u>0</u>	<u>0</u>	<u>310,291</u>
Excess of Operating and Non Operating Cash Receipts Over/(Under) Operating and Non Operating Cash Disbursements	<u>(59,111)</u>	<u>(14,503)</u>	<u>(1,912)</u>	<u>8,758</u>	<u>(66,768)</u>
Fund Cash Balances, July 1, 2011	<u>183,625</u>	<u>39,755</u>	<u>141,563</u>	<u>27,727</u>	<u>392,670</u>
Fund Cash Balances, June 30, 2012	<u>\$ 124,514</u>	<u>\$ 25,252</u>	<u>\$ 139,651</u>	<u>\$ 36,485</u>	<u>\$ 325,902</u>

See accompanying notes to the financial statements.

**NORTHWESTERN LOCAL SCHOOL DISTRICT
WAYNE COUNTY, OHIO
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. DESCRIPTION OF THE ENTITY

The Northwestern Local School District, Wayne County, Ohio, (the District) is a body corporate and politic established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The District is a local school district as defined by Section 3311.03 of the Ohio Revised Code. The District operates under an elected Board of Education, consisting of five members and is responsible for providing public education to residents of the district.

Average daily membership on, or as of, October 1, 2011 was 1,422. The District employs 104 certified and 65 non-certified employees. The District is supervised by the Tri-County Educational Service Center, a separate entity.

The District provides regular, vocational and special instruction. The District also provides support services for the pupils, instructional staff, general and school administration, business and fiscal services, facilities acquisition and construction services, operation and maintenance of plant, student transportation, food services, extracurricular activities and non-programmed services.

The District's management believes these financial statements present all activities for which the District is financially accountable.

B. BASIS OF ACCOUNTING

Although required by Ohio Administrative Code 117-2-03 to prepare its financial report in accordance with accounting principles generally accepted in the United States of America, the District has chosen to prepare its financial statements on a basis of accounting not in accordance with generally accepted accounting principles. The basis of accounting is similar to the cash receipts and cash disbursements basis of accounting. Receipts are recognized when received and cash rather than when they are earned, and disbursements are recognized when paid rather than when the liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e. when an encumbrance is approved).

C. CASH

Investments are reported as assets. Accordingly, purchases of investments are not recorded as disbursements and sales of investments are not recorded as receipts. Gains or losses at the time of sale are recorded as receipts or disbursements, respectively.

The investment in STAR Ohio (the State Treasurer's investment pool) is valued at amounts reported by the State Treasurer.

**NORTHWESTERN LOCAL SCHOOL DISTRICT
WAYNE COUNTY, OHIO
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012**

D. FUND ACCOUNTING

The District maintains its accounting records in accordance with the principles of "Fund" accounting. Fund accounting is a concept developed to meet the needs of governmental entities in which legal or other restraints require the recording of specific receipts and disbursements. The transactions of each fund are reflected in a self-balancing group of accounts, an accounting entity, which stands separate from the activities reported in other funds. The restrictions associated with each class of funds are as follows:

Governmental Funds

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

Special Revenue - Special Revenue funds are used to account for the proceeds of special revenue sources, other than expendable trusts or major capital projects that are legally restricted to expenditure for specified purposes. Some of the significant Special Revenue funds are:

Title VI-B Fund -This fund ensures that all children with disabilities have available to them a free appropriate public education which emphasizes special education and related services designed to meet their unique needs.

Athletic Fund -This fund accounts for gate receipts and other revenue from athletic events and all costs (except supplemental coaching contracts) of the District's athletic program and transportation to and from athletic events.

Maintenance Fund - This fund accounts for the maintenance and repair of school buildings and other school properties.

Title-I: Disadvantaged Children/Targeted Assistance – This fund provides educational services to meet the special needs of educationally deprived children. Included are the Even Start and Comprehensive School Reform Programs.

Debt Service - The Debt Service fund is used to account for the accumulation of resources for the payment of general long-term obligation principal, interest, and related costs.

Bond Retirement Fund -This fund retires the general obligation debt of the District.

Capital Projects - Capital Projects funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities other than those financed by proprietary funds. The most significant Capital Project fund in the District is the:

Permanent Improvement Fund - This fund expends funds for continuous capital improvements within the District.

**NORTHWESTERN LOCAL SCHOOL DISTRICT
WAYNE COUNTY, OHIO
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012**

Proprietary Funds

Enterprise Funds - Enterprise Funds are used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs, of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or where the governing body has decided that periodic determination of revenues, expenses, and net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. The only Enterprise fund in the District is the:

Food Service Fund - This fund assists the District in administering financial transactions related to food service operations.

Internal Service Fund - The Internal Service Fund is used to account for the financing of goods or services provided by one department or agency to other governmental units, on a cost-reimbursement basis. The only Internal Service fund is the:

Dental Insurance Fund - This fund accounts for monies to pay claims for employee dental plans.

Private Purpose Trust Funds

Private Purpose Trust Funds - These funds are used to account for contributions, which are limited to benefiting individuals, other organizations, or other governments. The most significant Private Purpose Trust fund in the District is the:

Leo Welty Scholarship Fund - This fund accounts for scholarships.

Agency Funds

Agency Funds - These funds are used to account for assets held by the District, as an agent for individuals, private organizations or other governmental units and/or other funds. The only Agency fund in the District is the:

Student Activities Fund - This fund accounts for student activity programs which have student participation in the activity and have students involved in the management of the program.

E. BUDGETARY PROCESS

Tax Budget

A budget of estimated cash receipts and disbursements is submitted to the Wayne County Auditor, as secretary of the County Budget Commission, by January 20 of each year, for the period July 1 to June 30 of the following year.

**NORTHWESTERN LOCAL SCHOOL DISTRICT
WAYNE COUNTY, OHIO
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012**

Appropriations

An appropriation measure is adopted by the District on or before the first day of July in each year for the period July 1 to June 30 of the following year. The appropriation measure is submitted to the County Auditor, who in turn, submits it to the County Budget Commission. The appropriation measure controls expenditures of the District. The District may, by resolution, transfer funds from one line item to another in the appropriation measure, reduce or increase any item, create new items, and make additional appropriations, subject to availability of funds and to the approval of the County Budget Commission. The District's legal level of control is set at the fund level. The budget figures in Note 3 represent the final appropriation amounts including all amendments and modifications.

Estimated Resources

The County Budget Commission determines if the budget substantiates a need to levy all or part of previously authorized taxes and reviews estimated revenue. The Commission certifies its actions to the District by March 1. As part of the certification, the District receives the official certificate of estimated resources, which states the projected revenue of each fund. Prior to June 30, the District must revise its budget so that the total contemplated expenditures from any fund during the ensuing fiscal year will not exceed the amount available as stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriation measure. On or about July 1, the certificate of estimated resources is amended to include any unencumbered balances from the preceding year. The certificate may be further amended during the year if a new source of revenue is identified or actual receipts exceed current estimates.

Encumbrances

The District is required to use the encumbrance method of accounting by virtue of Ohio law. Under this system, purchase orders, contracts and other commitments for the expenditure of funds are recorded in order to reserve the portion of the applicable appropriation.

At the close of each year, the unencumbered balance of each appropriation reverts to the respective funds from which it was appropriated and becomes subject to future appropriations. The encumbered appropriation balance is carried forward to the succeeding fiscal year and need not be reappropriated.

A summary of 2012 budgetary activity appears in Note 3.

F. PROPERTY, PLANT AND EQUIPMENT

Acquisitions of property, plant and equipment are recorded as disbursements when paid. These items are not reflected as assets on the accompanying financial statements.

G. ACCUMULATED LEAVE

In certain circumstances, such as upon leaving employment, employees are entitled to cash payments for unused leave. Unpaid leave is not reflected as a liability under the District's basis of accounting.

**NORTHWESTERN LOCAL SCHOOL DISTRICT
WAYNE COUNTY, OHIO
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012**

H. TOTAL COLUMNS ON FINANCIAL STATEMENTS

Total columns on the financial statements are captioned “Memorandum Only” because they do not represent consolidated financial information and are presented only to facilitate financial analysis. The columns do not present information that reflects the financial position, results of operations or cash flows in accordance with generally accepted accounting principles. Interfund eliminations have not been made in the aggregation of this data.

I. FUND BALANCE

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

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

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

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

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

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

**NORTHWESTERN LOCAL SCHOOL DISTRICT
WAYNE COUNTY, OHIO
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012**

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

2. CASH AND INVESTMENTS

Cash received by the District is pooled in a central bank account with individual fund balance integrity maintained throughout. Individual fund integrity is maintained through the District's records. During the fiscal year, all investments were limited to certificates of deposit and the State Treasury Asset Reserve of Ohio (STAR Ohio).

Except for nonparticipating investment contracts, investments are reported at fair value which is based on quoted market prices. Nonparticipating investment contracts such as repurchase agreements and nonnegotiable certificates of deposit are reported at cost.

STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but 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, which is the price the investment could be sold for on June 30, 2012.

Under existing Ohio statutes all investment earnings are assigned to the General Fund unless statutorily required to be credited to a specific fund. For the District, all investment earnings are receipts in the General Fund, School Support Fund, Maintenance Fund, Student Activities Fund, Permanent Improvement Fund, Ohio School Facilities Fund, Food Service Fund, Dental Insurance Fund, and various trust funds, as authorized by board resolution. Interest income earned in fiscal year 2012 totaled \$4,921.

The District maintains a cash and investment pool used by all funds. The Ohio Revised Code prescribes allowable deposits and investments. The carrying amount of cash and investments at June 30 was as follows:

Demand Deposits	\$ 318,979
STAR Ohio	4,614,860
Certificate of Deposits	<u>479,000</u>
Total Deposits and Investments	<u><u>\$ 5,412,839</u></u>

Deposits and certificate of deposits 100% covered by FDIC. STAROhio is an investment pool operated by the Ohio State Treasurer. It is unclassified since it is not evidenced by securities that exist in physical or book entry form. Ohio law requires STAROhio maintain the highest rating provided by at least one nationally recognized standard rating service. The weighted average of maturity of the portfolio held by STAROhio as of June 30, 2012, is 53 days and carries a rating of AAAM by Standard and Poor's.

**NORTHWESTERN LOCAL SCHOOL DISTRICT
WAYNE COUNTY, OHIO
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012**

3. BUDGETARY ACTIVITY

Budgetary activity for the year ending June 30, 2012 is as follows:

	2012 Budgeted vs Actual Receipts		
	Budget	Actual	Variance
	Receipts	Receipts	
General	\$ 11,947,677	\$ 12,437,454	\$ 489,777
Special Revenue	1,057,094	1,134,655	77,561
Debt Service	2,834,591	2,780,013	(54,578)
Capital Projects	241,000	239,784	(1,216)
Enterprise	561,150	575,218	14,068
Internal Service	112,800	109,626	(3,174)
Private Purpose Trust	5,248	3,588	(1,660)

	2012 Appropriation vs Actual Budgetary Basis Expenditures		
	Appropriation	Budgetary	Variance
	Authority	Expenditures	
General	\$ 12,633,765	\$ 12,626,285	\$ 7,480
Special Revenue	1,311,380	1,308,550	2,830
Debt Service	2,779,713	2,752,043	27,670
Capital Projects	277,583	277,583	0
Enterprise	640,183	640,183	0
Internal Service	124,129	124,129	0
Private Purpose Trust	10,450	5,500	4,950

Some funds are included in the general fund on the combined statement of cash receipts, cash disbursements, and changes in fund cash balances, but have legally adopted budgets.

4. PROPERTY TAXES

Property taxes include amounts levied against all real and public utility property located in the District. Property tax revenue received during 2012 for real and public utility property taxes represents collections of the 2011 taxes.

Real property taxes were levied after October 1, on the assessed value as of January 1, the lien date. Assessed values are established by State law at 35% of appraised market value. 2012 real property taxes are collected in and intended to finance 2013.

Public utility tangible personal property currently is assessed at varying percentages of true value; public utility real property is assessed at 35% of true value. 2012 public utility property taxes which became a lien December 31, 2011, are levied after October 1, 2012, and are collected in 2013 with real property taxes.

**NORTHWESTERN LOCAL SCHOOL DISTRICT
WAYNE COUNTY, OHIO
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012**

House Bill No. 66 was signed into law on June 30, 2005. House Bill No. 66 phased out the tax on tangible personal property of general businesses, telephone and telecommunications companies, and railroads. The tax on general business and railroad property was eliminated in calendar year 2009, and the tax on telephone and telecommunications property was eliminated in calendar year 2010. The tax was phased out by reducing the assessment rate on the property each year. The bill replaced the revenue lost by the District due to the phasing out of the tax. In calendar years 2006-2010, the District was fully reimbursed for the lost revenue. In calendar years 2011-2017, the reimbursements are being phased out. On June 30, 2011, House Bill No. 153 was signed into law, which further reduced the amounts of these reimbursements.

The full tax rate for all District operations for the fiscal year ended June 30, 2012, was \$32.60 per \$1,000 of assessed valuation. The assessed values of real property upon which 2012 property tax receipts were based are as follows:

	2011				
	Real Property		Tangible Personal Property		Total Valuation
	Residential/ Agriculture	Commercial/ Industrial	PUCO Personal	Telephone PP	
Wayne County	\$ 118,558,670	\$ 10,237,590	\$ 3,252,150	\$ 0	\$ 132,048,410
Ashland County	6,945,130	224,420	333,200	0	7,502,750
Grand Total	<u>\$ 125,503,800</u>	<u>\$ 10,462,010</u>	<u>\$ 3,585,350</u>	<u>\$ 0</u>	<u>\$ 139,551,160</u>

	2010				
	Real Property		Tangible Personal Property		Total Valuation
	Residential/ Agriculture	Commercial/ Industrial	PUCO Personal	Telephone PP	
Wayne County	\$ 117,951,730	\$ 9,800,700	\$ 3,069,080	\$ 244,510	\$ 131,066,020
Ashland County	6,666,640	197,430	319,830	30,670	7,214,570
Grand Total	<u>\$ 124,618,370</u>	<u>\$ 9,998,130</u>	<u>\$ 3,388,910</u>	<u>\$ 275,180</u>	<u>\$ 138,280,590</u>

Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits later 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 semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30; with the remainder payable by September 20.

The County Treasurer collects property taxes on behalf of all taxing districts within the County. The County Auditor periodically remits to the District its portion of the taxes collected.

**NORTHWESTERN LOCAL SCHOOL DISTRICT
WAYNE COUNTY, OHIO
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012**

5. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

Plan Description - The District contributes to the School Employees Retirement System of Ohio (“SERS”), a cost-sharing multiple-employer defined benefit pension plan. SERS provides retirement, disability and survivor benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by state statute per Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report is posted on the SERS’ website at www.ohsers.org under *Employers/Audit Resources*.

Funding Policy - Plan members are required to contribute 10% of their annual covered salary and the District is required to contribute 14% of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS’ Retirement Board. The Retirement Board acting with the advice of the actuary, allocates the employer contribution rate among four of the funds (Pension Trust Fund, Death Benefit Fund, Medicare B Plan, and Health Care Fund) of the System. For fiscal year ending June 30, 2011, the allocation to pension and death benefits is 12.65%. The remaining 1.35% of the 14% employer contribution rate is allocated to Health Care, Medicare B Fund and Death Benefits. The District’s required contributions for pension obligations to SERS for the fiscal years ended June 30, 2012, 2011, and 2010 were \$304,750, \$308,418, and \$280,056, respectively; 100% has been contributed for all fiscal years.

B. State Teachers Retirement System

Plan Description - The District participates in the State Teachers Retirement System of Ohio (“STRS Ohio”), a cost-sharing, multiple employer public employee retirement plan. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio Web site at www.strsoh.org.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. 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 a member’s contributions and earned interest matched by STRS Ohio funds divided by 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 DB Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Benefits are established by Chapter 3307 of the Ohio Revised Code.

**NORTHWESTERN LOCAL SCHOOL DISTRICT
WAYNE COUNTY, OHIO
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012**

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 of the DC Plan dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Funding Policy - For the fiscal year ended June 30, 2012, plan members were required to contribute 10% of their annual covered salaries. The District was required to contribute 14%; 13% was the portion used to fund pension obligations. For fiscal year 2012, the portion used to fund pension obligations was also 13%. Contribution rates are established by the State Teachers Retirement Board, upon recommendations 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 required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2012, 2011, and 2010, were \$785,703, \$757,404, and \$808,428, respectively; 100% has been contributed for all fiscal years.

6. POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

In addition to a cost-sharing multiple-employer defined benefit pension plan, SERS administers two postemployment benefit plans, the Medicare Part B Plan and the Health Care Plan.

Medicare Part B Plan - The Medicare B plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Ohio Revised Code (ORC) 3309.69. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B monthly premium for calendar year 2011 was \$96.40 for most participant, but could be as high as \$369.10 per month depending on their monthly income; SERS' reimbursement to retirees was \$45.50. The Retirement Board, acting with the advice of the actuary, allocates a portion of the current employer contribution rate to the Medicare B Fund. For fiscal year 2012, the actuarially required allocation was .75%.

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

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

**NORTHWESTERN LOCAL SCHOOL DISTRICT
WAYNE COUNTY, OHIO
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012**

The Health Care Fund was established under, and is administered in accordance with Internal Revenue Code 105(e). Each year after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer 14% contribution to the Health Care Fund. At June 30, 2012, the health care allocation was 1.43%. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statutes provide that no employer shall pay a health care surcharge greater than 2% of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5% of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2012, the minimum compensation level was established at \$35,800. For the School during fiscal year the amount to \$11,972.

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

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

B. State Teachers Retirement System

Plan Description – The District contributes to the cost sharing multiple employer defined benefit Health Plan administered by the State Teachers Retirement System of Ohio (STRS Ohio) for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS Ohio. Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. The Plan is included in the report of STRS Ohio which may be obtained by visiting www.strsoh.org or by calling (888) 227-7877.

Funding Policy – Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2010 (latest information available), STRS Ohio allocated employer contributions equal to 1 % of covered payroll to the Health Care Stabilization Fund. The District's contributions for health care for the fiscal years ended June 30, 2012, 2011, and 2010, were \$56,122, \$54,100, and \$57,745, respectively; 100% has been contributed for all fiscal years.

7. GENERAL LONG-TERM DEBT OBLIGATIONS

	Outstanding 7/1/2011	Additions	Deletions	Outstanding 6/30/2012
General Obligation Bonds:				
2004 Refunding (1.5% to 5.75%)	\$ 2,635,000	\$ 0	\$ 365,000	\$ 2,270,000
2011 Refunding (1.0% to 3.2%)	0	1,885,000	0	1,885,000
Various Improvement Bonds:				
3% - due July 1, 2023	2,750,000	0	2,025,000	725,000
	<u>\$ 5,385,000</u>	<u>\$ 1,885,000</u>	<u>\$ 2,390,000</u>	<u>\$ 4,880,000</u>

**NORTHWESTERN LOCAL SCHOOL DISTRICT
WAYNE COUNTY, OHIO
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FOR THE YEAR ENDED JUNE 30, 2012**

Outstanding general obligation bonds consist of school building construction issues and school bus issues. General obligation bonds are direct obligations of the District for which its full faith, credit and resources are pledged and are payable from taxes levied on all taxable property in the District.

On October 15, 2003, the District issued \$2,995,000 refunded general obligation bonds. The proceeds of the bonds were used to refund in advance of their maturity the December 1, 2006 and December 1, 2016 maturities totaling \$2,995,000 of the District's general obligation bonds, Series 1994. This refunding was done to achieve interest cost savings. Proceeds of the bonds were used to establish an irrevocable escrow account. Funds in the escrow account were invested in special direct obligations of the United States Treasury or other obligations of the United States government or its agencies. The escrow securities and their earnings are structured to pay the principal and interest on the refunded 1994 bonds as such payments become due, until the call dates of the respective refunded bonds, at which time the escrow pays the principal of the refunded bonds at a price of par plus interest. Since these bonds have been placed in irrevocable trust, they are considered defeased for these financial statements. The advance refunding resulted in a difference between reacquisition price and the net carrying amount of the old debt of \$357,935. The economic gain is \$254,510.

In September, 2011, the District issued \$1,885,000 refunded general obligation bonds. The proceeds of the bonds were used to refund in advance of their maturity the December 1, 2011 through December 2018, December 1, 2021, and December 1, 2024 maturities totaling \$1,885,000 of the District's general obligation bonds, 2001. This refunding was done to achieve interest cost savings. Proceeds of the bonds were used to establish an irrevocable escrow account. Funds in the escrow account were invested in special direct obligations of the United States Treasury or other obligations of the United States government or its agencies. The escrow securities and their earnings are structured to pay the principal and interest on the refunded 2001 bonds as such payments become due, until the call dates of the respective refunded bonds, at which time the escrow pays the principal of the refunded bonds at a price of par plus interest. Since these bonds have been placed in irrevocable trust, they are considered defeased for these financial statements. The advance refunding resulted in a difference between reacquisition price and the net carrying amount of the old debt of \$246,825. The economic gain is \$196,902. These refunding bonds were issued with a premium of \$57,564.

The annual requirement to amortize all debt outstanding as of June 30, 2012 is as follows:

Fiscal Year	School Improvement Bonds	2011 Refunding Bond	Various Improvement Bonds	Total
2013	\$ 503,142	\$ 234,028	\$ 0	\$ 737,170
2014	512,892	232,079	0	744,971
2015	515,377	236,105	0	751,482
2016	534,275	65,766	276,206	876,247
2017	540,094	70,035	276,006	886,135
2018-2022	0	960,099	553,862	1,513,961
2023-2028	0	505,084	0	505,084
Total Principal and Interest	2,605,780	2,303,196	1,106,074	6,015,050
Less interest	(335,780)	(418,196)	(381,074)	(1,135,050)
Total Principal	<u>\$ 2,270,000</u>	<u>\$ 1,885,000</u>	<u>\$ 725,000</u>	<u>\$ 4,880,000</u>

**NORTHWESTERN LOCAL SCHOOL DISTRICT
WAYNE COUNTY, OHIO
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012**

8. SET ASIDES

The District is required by State statute to annually set aside monies for capital improvements. The amounts set-aside may be reduced by offset credits, which are monies received and restricted for the same specific purpose. Amounts not spent by year-end or reduced by offset credits must be held in cash at year-end and carried forward to be used for the same purposes in futures years.

	Budget Stabilization Reserve	Capital Improvement Reserve
Set Aside Cash Balance as of June 30, 2011	\$ 173,531	\$ 0
Current Year Set Aside Requirement	0	245,237
Current Year Offsets	0	(245,237)
Total	\$ 173,531	\$ 0
 Balance Carried Forward to Fiscal Year 2013	 \$ 173,531	 \$ 0
Set Aside Reserve Balance June 30, 2012	\$ 173,531	\$ 0

The District had qualifying disbursements during the year that reduced capital improvement set-asides below zero. This extra amount may not be used to reduce the set-aside requirement in future fiscal years. Effective July 1, 2011, the textbook set-aside laws have been repealed.

9. FUND TRANSFERS

During the fiscal year 2012, the District transferred out from the General Fund \$43,000 to the Management Information System Fund for subsidy of normal operations. The applicable Ohio Revised Code compliance requirements were met.

10. JOINTLY GOVERNED ORGANIZATION

Tri-County Computer Services Association (TCCSA)

The Tri-County Computer Services Association (TCCSA) is a jointly governed organization comprised of 21 school districts. The jointly governed organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions for member districts. Each of the governments of these districts supports TCCSA based on per pupil charge dependent upon the software package utilized. The TCCSA assembly consists of a superintendent or designated representative from each participating district and a representative from the fiscal agent. TCCSA is governed by a board of directors chosen from the general membership of the TCCSA assembly. The board of directors consists of a representative from the fiscal agent, the chairman of each operating committee, and at least an assembly member from each county from which participating districts are located. Financial information can be obtained by contacting the Treasurer at the Tri-County Educational Service Center, which is the fiscal agent, located at 741 Winkler Drive, Wooster, OH 44691. During the year ended June 30, 2012, the District paid approximately \$56,763 to TCCSA for basic service charges.

**NORTHWESTERN LOCAL SCHOOL DISTRICT
WAYNE COUNTY, OHIO
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012**

11. RISK MANAGEMENT

A. Property and Liability

The District is exposed to various risks of loss related torts, theft of, damage to, and destruction of assets, errors, omissions, injuries to employees, and natural disasters. The District has a comprehensive property and casualty policy with the Indiana Insurance Company. The deductible is \$1,000 per incident on property and \$1,000 per incident on equipment. All vehicles are also insured with the Indiana Insurance Company and have a \$1,000 deductible. All board members, administrators and employees are covered under a school district liability policy with Indiana Insurance Company. The limits of coverage are \$1,000,000 per occurrence and \$2,000,000 per aggregate. Settled claims have not exceeded this commercial coverage in any of the past three years. There has not been a significant reduction in coverage from the prior year. The board president, superintendent, athletic director and food service director, each have a \$20,000 position bond with Travelers Casualty Insurance Company.

The Treasurer is covered under a surety bond in the amount of \$50,000. The bond is provided by the Travelers Casualty Insurance Company.

B. Workers Compensation

The District pays the State Workers' Compensation System a premium based on a rate per \$100 of salaries. The District is a member of the Ohio School Board Association Group Rating System. The rate is calculated based on accident history and administrative costs. The group presently consists of over 400 school districts.

C. Dental Insurance

The District operates and manages employee dental benefit on a self-insured basis. The District pays monthly contributions that are placed in a common fund from which eligible claims are paid for employees and their dependents.

12. PUBLIC ENTITY RISK POOL

The Wayne County Schools Council for Health Care Benefit Program is a shared risk pool created pursuant to state statute for the purpose of administering health care benefits. The Council is governed by an assembly which consists of one representative from each participating school district (usually superintendent, treasurer or executive member of governing body). The Council elects officers to serve on the Board of Directors. The assembly exercises control over the operation of the Council. Council revenues are generated from charges for services from participating school districts, based on the established premiums for the insurance plans. Each school district reserves the right to terminate the plan in whole or in part, at any time. If it is terminated, no further contributions will be made, but the benefits under the insurance contract shall be paid in accordance with terms of the contract.

**NORTHWESTERN LOCAL SCHOOL DISTRICT
WAYNE COUNTY, OHIO
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012**

13. CONTINGENT LIABILITIES

The District may be a defendant in various lawsuits. Although, the outcome of the lawsuits is not presently determinable, in the opinion of legal counsel, the resolution of these matters will not have a material adverse effect on the financial condition of the District.

The District received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally require compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2012.

14. COMPLIANCE

The District did not prepare its financial report in accordance with generally accepted accounting principles, contrary to Ohio Admin. Code 117-2-03.

15. IMPLEMENTATION OF NEW ACCOUNTING POLICIES

On July 1, 2011, the District implemented Governmental Accounting Standards Board (GASB) Statement No. 54, “*Fund Balance Reporting and Governmental Fund Type Definitions.*”

GASB Statement No. 54 enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The requirements of this statement classify fund balance as nonspendable, restricted, committed, assigned and/or unassigned.

Restatement of Fund Balances

On July 1, 2011, the District implemented Governmental Accounting Standards Board Statement No. 54, “Fund Balance Reporting and Governmental Fund Type Definitions”. The adjustments had the following effect on governmental modified fund balances as previously reported:

	General Fund	Special Revenue Funds
Fund Balance, June 30, 2011	\$ 2,432,328	\$ 373,792
Fund reclassifications	61,584	(61,584)
Restated Fund Balance, July 1, 2011	\$ 2,493,912	\$ 312,208

**NORTHWESTERN LOCAL SCHOOL DISTRICT
WAYNE COUNTY, OHIO
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012**

16. FUND BALANCE

Fund balance can be classified as nonspendable, restricted, committed, assigned and/or unassigned based primarily on the extent to which the District is bound to observe constraints imposed upon the use of the resources in governmental funds.

The constraints placed on fund cash balance for the major governmental fund types are presented as follows:

	General Fund	Special Revenue Funds	Debt Service Funds	Capital Project Funds	Total
Restricted for:					
Capital Projects	\$ 0	\$ 0	\$ 0	\$ 81,932	\$ 81,932
Debt Service	0	0	1,795,185	0	1,795,185
Maintenance Fund	0	98,105	0	0	98,105
Student Activities	0	49,427	0	0	49,427
Other Purposes	0	10,275	0	0	10,275
Total Restricted	0	157,807	1,795,185	81,932	2,034,924
Assigned for:					
Encumbrances	733,597	0	0	0	733,597
Other Purposes	105,475	0	0	0	105,475
Total Assigned	839,072	0	0	0	839,072
Unassigned	2,212,941	0	0	0	2,212,941
Total Fund Balance	\$ 3,052,013	\$ 157,807	\$ 1,795,185	\$ 81,932	\$ 5,086,937

17. CONTRACTUAL COMMITMENTS

As of June 30, 2012, the District had the following contractual commitments:

	Contract Amount	Amount Paid as of June 30, 2012	Amount Remaining on Contract
Mansfield Truck Sales	\$ 424,250	\$ 0	\$ 424,250
B2B Computer Products, LLC	105,887	0	105,887
Garland Co.	17,473	0	17,473
Edwards Roofing and Heating	14,517	0	14,517
	<u>\$ 562,127</u>	<u>\$ 0</u>	<u>\$ 562,127</u>

18. SUBSEQUENT EVENT

On May, 21, 2012, the Board of Education authorized bank financing in the amount of \$339,840 over five years at a fixed interest rate of 2.633%, through Farmers State Bank for the purchase of four school buses. The debt was issued July 30, 2012.

August 10, 2012

Board of Education
Northwestern Local School District
Wayne County, Ohio
7571 N. Elyria Road
West Salem, OH 44287

**Independent Auditor's Report on Internal Control over
Financial Reporting and On Compliance and Other Matters
Based On an Audit of Financial Statements Performed
In Accordance With Government Auditing Standards**

We have audited the financial statements of Northwestern Local School District, Wayne County, Ohio (the District) as of and for the year ended June 30, 2012, and have issued our report thereon dated August 10, 2012, with an adverse opinion on the District's accompanying financial statements because they do not present fairly the financial position and results of operations in accordance with accounting principles generally accepted in the United States of America. We also noted the District restated fund cash balances to account for the implementation of GASB Statement No. 54. 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 *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

Management of the District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined previously.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on 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 such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying *Schedule of Findings* as item 2012-001.

We noted certain matters that we reported to management of the District in a separate letter dated August 10, 2012.

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

This report is intended solely for the information and use of management, the Board of Education, others within the entity, federal awarding agencies and pass-through agencies and is not intended to be and should not be used by anyone other than these specified parties.

Rea & Associates, Inc.

August 10, 2012

Board of Education
Northwestern Local School District
Wayne County, Ohio
7571 N. Elyria Road
West Salem, OH 44287

**Independent Auditor's Report on Compliance with Requirements
That Could Have a Direct and Material Effect on
Each Major Program and on Internal Control
Over Compliance in Accordance with OMB Circular A-133**

Compliance

We have audited the compliance of Northwestern Local School District, Wayne County, Ohio (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 could have a direct and material effect on the District's major federal program for the year ended June 30, 2012. The District's major federal program is identified in the summary of auditor's results section of the accompanying *Schedule of Findings*. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of the District's management. 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 obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that 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 compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2012.

Internal Control over Compliance

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

The purpose of this report is solely to describe the scope of our testing of compliance and internal control over compliance, and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control over compliance. This report is an integral part of an audit performed in accordance with OMB Circular A-133 in considering the entity's compliance and internal control over compliance. Accordingly, this report is not suitable for any other purpose.

Rea & Associates, Inc.

**NORTHWESTERN LOCAL SCHOOL DISTRICT
WAYNE COUNTY, OHIO
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

Federal Grantor/Pass Through Grantor Program Title	Grant Year	CFDA Number	Federal Receipts	Federal Expenditures
U.S. Department of Education				
<i>Passed Through Ohio Department of Education:</i>				
Title I Grants to Local Educational Agencies	2012	84.010	\$ 284,879	\$ 284,879
Special Education - Grants to States	2012	84.027	279,406	279,406
Title II-D - Education Technology	2012	84.318	0	2,005
Title II-A - Improving Teacher Quality	2012	84.367	47,393	47,393
Education Jobs Fund	2012	84.410	11,079	11,079
Total U.S. Department of Education			622,757	624,762
U.S. Department of Agriculture				
<i>Passed Through Ohio Department of Education:</i>				
<i>Child Nutrition Cluster:</i>				
<i>Non-Cash Assistance (Food Distribution):</i>				
National School Lunch Program	2012	10.555	42,890	42,890
<i>Cash Assistance:</i>				
School Breakfast Program	2012	10.553	50,226	50,226
National School Lunch Program	2012	10.555	253,390	253,390
<i>Cash Assistance Subtotal</i>			303,616	303,616
<i>Total Child Nutrition Cluster</i>			346,506	346,506
Total U.S. Department of Agriculture			346,506	346,506
TOTAL FEDERAL ASSISTANCE			\$ 969,263	\$ 971,268

See accompanying notes to this schedule

**NORTHWESTERN LOCAL SCHOOL DISTRICT
WAYNE COUNTY, OHIO
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

Note A – Significant Accounting Policies

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) reports the federal award programs' receipts and disbursements. The schedule has been prepared on the cash basis of accounting. Consequently, certain revenues are recognized when received rather than when earned and certain expenditures are recognized when paid rather than when the obligation is incurred.

Note B - Child Nutrition Cluster

Federal money commingled with state subsidy reimbursements. It is assumed federal moneys are expended first.

Note C – Food Donation Program

Program regulations do not require the School District to maintain separate inventory records for purchased food and food received from the U.S. Department of Agriculture. This non-monetary assistance and related expenditures are reported in this schedule at the value of the commodities received as assessed by the U.S. Department of Agriculture (entitlement value).

**NORTHWESTERN LOCAL SCHOOL DISTRICT
WAYNE COUNTY, OHIO
SCHEDULE OF FINDINGS
OMB CIRCULAR A-133, SECTION .505
JUNE 30, 2012**

1. SUMMARY OF AUDITOR'S RESULTS
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(d) (1) (i)	Type of Financial Statement Opinion	Unqualified
(d) (1) (ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d) (1) (ii)	Were there any other significant deficiency conditions reported at the financial statement level (GAGAS)?	No
(d) (1) (iii)	Was there any reported material non-compliance at the financial statement level (GAGAS)?	Yes
(d) (1) (iv)	Was there any material internal control weakness conditions reported for major federal programs?	No
(d) (1) (iv)	Were there any other significant deficiencies reported for major federal programs?	No
(d) (1) (v)	Type of Major Programs' Compliance Opinion	Unqualified
(d) (1) (vi)	Are there any reportable findings under Section .510?	No
(d) (1) (vii)	Major Programs (list): Special Education - Grants to States	CFDA #84.027
(d) (1) (viii)	Dollar Threshold: Type A/B Programs	Type A: > \$300,000 Type B: All others
(d) (1) (ix)	Low Risk Auditee?	Yes

**NORTHWESTERN LOCAL SCHOOL DISTRICT
WAYNE COUNTY, OHIO
SCHEDULE OF FINDINGS (Continued)
OMB CIRCULAR A-133, SECTION .505
JUNE 30, 2012**

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

Material Non-Compliance

Finding Number: 2012-001

Criteria: Ohio Rev. Code Section 117.38 provides that each public office shall file a financial report for each fiscal year. The auditor of state may prescribe forms by rule or may issue guidelines, or both, for such reports. If the auditor of state has not prescribed a rule regarding the form for the report, the public office shall submit its report to the form utilized by the public office. Ohio Administrative Code Section 117-2-03 further clarifies the requirements of Ohio Rev. Code 117.38.

Ohio Admin. Code Section 117-2-03(B) requires the District to prepare its annual financial report in accordance with generally accepted accounting principles.

GASB Statement 34, “Basic Financial Statements – and Management’s Discussion and Analysis – For State and Local Governments” requires the School District’s basic financial statements and required supplementary information (RSI) consist of the following:

- Management’s Discussion and Analysis – Providing management’s analytical overview of the School District’s financial activities.
- Basic Financial Statements – The basic financial statements will consist of Government-wide financial statements, which will include a statement of net assets and a statement of activities, prepared on the economic resources measurement focus and the accrual basis of accounting. These statements will report all assets, liabilities, revenues, expenses, and gains and losses of the School District. The basic financial statements also will consist of the more familiar fund financial statements, but they will focus on the School District’s “Major” funds as defined in the Statement.
- Required Supplementary Information – Budgetary comparison schedules and certain “modified approach” infrastructure information.

Condition: The District did not prepare its financial statements in accordance with Ohio Rev. Code Section 117.38 and Ohio Admin. Code Section 117-2-03(B).

Cause: For fiscal year 2012, the District prepared its financial statements in accordance with standards established by the Auditor of State for governmental entities not required to prepare annual reports in accordance with generally accepted accounting principles. The accompanying financial statements and notes omit assets, liabilities, fund equities, and disclosures that, while material, cannot be determined at this time.

Effect: Pursuant to Ohio Rev. Code Section 117.38, the District may be fined and subject to various other administrative remedies for its failure to file the required financial report.

**NORTHWESTERN LOCAL SCHOOL DISTRICT
WAYNE COUNTY, OHIO
SCHEDULE OF FINDINGS (Continued)
OMB CIRCULAR A-133, SECTION .505
JUNE 30, 2012**

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

Finding Number: 2012-001 (Continued)

Recommendation: We recommend the District review the new standards and ensure preparation of its financial statements in accordance with AICPA's *Audit and Accounting Guide Audits of State and Local Governments (GASB 34 edition)*. We also recommend the District prepare its financial statements in accordance with Ohio Administrative Code and Ohio Revised Code.

Management's Response: The District does not intend to report in accordance with generally accepted accounting principles (GAAP). Management believes the cost savings far outweighs reporting on GAAP.

3. FINDINGS FOR FEDERAL AWARDS

None

**NORTHWESTERN LOCAL SCHOOL DISTRICT
WAYNE COUNTY, OHIO
SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2012**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:
2011-001	Ohio Admin. Code Section 117-2-03(B) , Prepare Annual Financial Report in Accordance with Generally Accepted Accounting Principles	No	Repeated as Finding 2012-001

August 10, 2012

Board of Education
Northwestern Local School District
Wayne County, Ohio
7571 N. Elyria Road
West Salem, OH 44287

Independent Accountant's Report on Applying Agreed-Upon Procedures

Ohio Rev. Code Section 117.53 states "the auditor of state shall identify whether the school district or community school has adopted an anti-harassment policy in accordance with Section 3313.666 of the Revised Code. This determination shall be recorded in the audit report. The auditor of state shall not prescribe the content or operation of any anti-harassment policy adopted by a school district or community school."

Accordingly, we have performed the procedures enumerated below, which were agreed to by the Board, solely to assist the Board in evaluating whether Northwestern Local School District (the "District") has adopted an anti-harassment policy in accordance with Ohio Rev. Code Section 3313.666. Management is responsible for complying with this requirement. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the Board. Consequently; we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

1. We noted the Board amended its anti-harassment policy at its meeting on August 22, 2011, to include violence within a dating relationship within its definition of harassment, intimidation or bullying.

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on compliance with the anti-harassment policy. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Board and is not intended to be and should not be used by anyone other than these specified parties.

Rea & Associates, Inc.

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Dave Yost • Auditor of State

NORTHWESTERN LOCAL SCHOOL DISTRICT

WAYNE 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
NOVEMBER 8, 2012**