

Norwalk City School District
Huron County, Ohio
Audited Financial Statements

For the Fiscal Year Ended June 30, 2011



Dave Yost • Auditor of State

Board of Education
Norwalk City School District
134 Benedict Avenue
Norwalk, Ohio 44857

We have reviewed the *Independent Auditor's Report* of the Norwalk City School District, Huron County, prepared by Rea & Associates, Inc., for the audit period July 1, 2010 through June 30, 2011. 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.

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 Norwalk City School District is responsible for compliance with these laws and regulations.

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost
Auditor of State

June 1, 2012

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NORWALK CITY SCHOOL DISTRICT

For the Year Ended June 30, 2011

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January 25, 2012

The Board of Education
Norwalk City School District
134 Benedict Avenue
Norwalk, OH 44857

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Norwalk City School District (the School District), as of and for the year ended June 30, 2011, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about 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 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 School District, as of June 30, 2011, and the respective changes in financial position and the respective budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 4 to the basic financial statements, the School District changed its method of accounting for compensated absences in 2011.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 25, 2012, on our consideration of the School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Independent Auditor's Report
Page 2

The Management's Discussion and Analysis on pages 3 through 11 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the School District's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Hea & Associates, Inc.

Norwalk City School District
Huron County, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2011

The discussion and analysis of the Norwalk City School District's (the School District) financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2011. The intent of this discussion and analysis is to look at the School District's performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the School District's financial performance.

Financial Highlights

Key Financial Highlights for 2011 are as follows:

- q General Revenues accounted for \$23,672,500 in revenue or 80 percent of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$5,971,538 or 20 percent of total revenues of \$29,644,038.
- q Total program expenses were \$29,978,695 which is up from the restated amount of \$29,820,559 in fiscal year 2010.
- q Total net assets decreased \$334,657 or 1.4 percent from fiscal year 2010.
- q Outstanding net bonded debt decreased from \$12,387,021 to \$11,893,099, primarily through payment of principal.

Using the Basic Financial Statements

This annual report consists of a series of financial statements and notes to those statements. The statements are organized so the reader can understand the School District as a financial whole, or as an entire operating entity.

The statement of net assets and the statement of activities provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and a longer-term view of those finances.

Fund financial statements provide a greater level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the School District's most significant funds, with all other non-major funds presented in total in a single column. For the School District, the general fund and bond retirement fund are the most significant funds.

Reporting the School District as a Whole

Statement of Net Assets and Statement of Activities

The statement of net assets and the statement of activities reflect how the School District did financially during fiscal year 2011. These statements include all assets and liabilities using the accrual basis of accounting similar to which is used by most private-sector companies. This basis of accounting considers all of the current fiscal year's revenues and expenses regardless of when cash is received or paid.

Norwalk City School District
Huron County
Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2011

These statements report the School District's net assets and changes in those assets. This change in net assets is important because it tells the reader whether the financial position of the School District as a whole has increased or decreased from the prior fiscal year. Over time, these increases and/or decreases are one indicator of whether the financial position is improving or deteriorating. Causes for these changes may be the result of many factors, some financial, some not. Nonfinancial factors include the School District's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, required educational programs, and other factors.

In the Statement of Net Assets and the Statement of Activities, the School District activities are listed as governmental:

- q Governmental Activities - Most of the School District's programs and services are reported here, including instruction, support services, operation and maintenance of plant, pupil transportation and extracurricular activities.

The government-wide financial statements begin on page 12.

Reporting the School District's Most Significant Funds

Fund Financial Statements

Fund financial statements provide detailed information about the School District's major funds. While the School District uses many funds to account for its multitude of financial transactions, the fund financial statements focus on the School District's most significant funds. The School District's major governmental funds are the general fund and the bond retirement fund.

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

Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund and the bond retirement fund, which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation.

The School District adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

The governmental fund financial statements begin on page 14.

Norwalk City School District
Huron County
Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2011

Fiduciary Funds - These funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the School District's own programs. These funds use the accrual basis of accounting.

The fiduciary fund financial statements begin on page 19.

Notes to the Financial Statements - The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements begin on page 21.

The School District as a Whole

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

Table 1 provides a summary of the School District's net assets for fiscal year 2011 compared to 2010:

(Table 1)
Governmental Activities

	2011	Restated 2010
Assets		
Current and Other Assets	\$ 23,065,117	\$ 23,195,878
Capital Assets	24,148,733	24,948,286
Total Assets	47,213,850	48,144,164
Liabilities		
Long-Term Liabilities	13,870,942	14,249,365
Other Liabilities	9,628,583	9,845,817
Total Liabilities	23,499,525	24,095,182
Net Assets		
Invested in Capital		
Assets Net of Debt	12,703,742	12,938,295
Restricted	5,980,876	5,691,136
Unrestricted	5,029,707	5,419,551
Total Net Assets	\$ 23,714,325	\$ 24,048,982

Total net assets decreased \$334,657, or 1.4 percent. This decrease is primarily due to decreases in cash and investments and depreciation of capital assets. Other liabilities decreased \$217,234 mainly in deferred revenue with an increase in amount of property taxes available for advance. Long term liabilities decreased \$378,423 primarily through payment of principal on long term debt.

Norwalk City School District
Huron County
Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2011

Table 2 shows the changes in net assets for fiscal year 2011 and 2010 and will help further explain the change from the prior year.

(Table 2)
Governmental Activities

	2011	Restated 2010
	<u>2011</u>	<u>2010</u>
Revenues		
<i>Program Revenues:</i>		
Charges for Services	\$ 1,493,771	\$ 1,447,810
Operating Grants	4,357,884	3,534,963
Capital Grants	119,883	46,973
Total Program Revenues	<u>5,971,538</u>	<u>5,029,746</u>
<i>General Revenue:</i>		
Property Taxes	7,754,338	7,141,530
Income Taxes	1,804,257	1,541,745
Grants and Entitlements	13,899,804	13,665,058
Investment Earnings	104,152	170,400
Other	109,949	211,462
Total General Revenues	<u>23,672,500</u>	<u>22,730,195</u>
<i>Total Revenues</i>	<u>29,644,038</u>	<u>27,759,941</u>
Program Expenses		
Instruction	16,941,171	17,072,067
Support Services	6,455,434	6,289,714
Operation and Maintenance and Central	2,776,409	2,661,554
Pupil Transportation	789,810	844,449
Operation of Non-Instructional	1,797,486	1,741,067
Extracurricular Activities	674,405	649,305
Interest and Fiscal Charges	543,980	562,403
<i>Total Expenses</i>	<u>29,978,695</u>	<u>29,820,559</u>
<i>Increase (Decrease) in Net Assets</i>	<u>\$ (334,657)</u>	<u>\$ (2,060,618)</u>

Fiscal year 2010 includes activities reclassified to fiduciary funds in fiscal year 2011 with the implementation of GASB 54, "Fund Balance Reporting and Governmental Fund Type Definitions" (see Note 4). Amounts are insignificant and would not impact the analysis of entity wide operations.

Program revenues account for 20 percent of total revenues and are primarily represented by restricted intergovernmental revenues, charges for tuition and fees, extracurricular activities, and food service sales.

The major program expenses for governmental activities are for instruction, which accounts for 57 percent of all governmental expenses. Other programs, which support the instruction process, including pupils and instructional staff, account for 22 percent of governmental expenses. Pupil transportation and maintenance of the School District's facilities also represents a significant expense of 12 percent. Therefore, 90 percent of the School District's expenses are related to the primary functions of providing facilities and delivering education. The community, as a whole, is the primary support for the School District's students.

Norwalk City School District
Huron County
Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2011

Governmental Activities

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State entitlements. All governmental activities had total revenues of \$29,644,038 and expenses of \$29,978,695 in fiscal year 2011.

(Table 3)
Governmental Activities

	2011		Restated 2010	
	Total Cost of Service	Net Cost of Service	Total Cost of Service	Net Cost of Service
Instruction	\$ 16,941,171	\$ 13,896,795	\$ 17,072,067	\$ 15,043,591
Support Services:				
Pupils	1,179,270	744,912	1,053,033	458,338
Instructional Staff	2,175,016	1,732,805	2,188,014	1,997,352
Board of Education	186,067	186,067	201,969	201,969
Administration	2,239,938	2,180,896	2,159,586	1,951,391
Fiscal	529,522	526,522	524,022	524,022
Business	145,621	145,621	163,090	163,090
Operation and Maintenance of Plant	2,679,126	2,559,243	2,527,253	2,480,280
Pupil Transportation	789,810	784,578	844,449	828,073
Central	97,283	69,113	134,301	(37,033)
Operation of Non-Instructional	1,797,486	186,050	1,741,067	267,003
Extracurricular Activities	674,405	447,575	649,305	350,334
Interest and Fiscal Charges	543,980	543,980	562,403	562,403
Total Expenses	\$ 29,978,695	\$ 24,004,157	\$ 29,820,559	\$ 24,790,813

Fiscal year 2010 includes activities reclassified to fiduciary funds in fiscal year 2011 with the implementation of GASB 54, "Fund Balance Reporting and Governmental Fund Type Definitions" (see Note 4). Amounts are insignificant and would not impact the analysis of entity wide operations.

The dependence upon tax revenues and unrestricted state entitlements for governmental activities is apparent. Over 82 percent of instruction activities are supported through taxes and other general revenues. For all governmental activities, support from general revenues is 80 percent. It is apparent that the community, as a whole, is the primary support for the School District's students.

Norwalk City School District
Huron County
Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2011

Financial Analysis of the Government's Funds

Governmental Funds

The focus of the School District's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the School District's financing requirements. In particular, unreserved fund balance may serve as a useful measure of the School District's net resources available for spending at year-end.

The School District's governmental funds (as presented on the balance sheet on page 14) reported a total fund balance of \$11,872,938, which is \$615,059 under last year's balance of \$12,487,997. The most significant change within the School District's funds was reported in the general fund with a decrease in fund balance of \$653,620.

Major Funds

The general fund is the main operating fund of the School District. At the end of fiscal year 2011, the fund balance in the general fund was \$8,916,013, which is a decrease of 6.8 percent from fiscal year 2010 that can be partially attributed to a slight increase in instructional and administrative expenditures.

The bond retirement fund is used to account for the resources and payments of the general long-term principal, interest and related costs. At the end of the fiscal year 2011, the fund balance in the bond retirement fund was \$1,477,992, which is an increase of 2.6 percent from fiscal year 2010 that can be partially attributed to a slight increase in property taxes and a minimal increase in debt service expenditures.

General Fund Budgeting Highlights

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

The School District uses a combination site-based and activity-based style of budgeting and has systems in place to tightly control expenses, yet provide flexibility for proper decisions by management.

For the general fund, there was a difference of \$814,455 between the final budget basis revenue of \$21,027,650 and the actual revenue of \$21,842,105. The School District received less income taxes than expected while property taxes increased \$632,663. The final budget expenditures of \$27,963,377 were \$4,960,307 more than the actual expenditures of \$23,003,070. The regular instruction and support service expenditures were less than anticipated. Final budget expenditures were \$246,869 less than the original budget. Nearly every expenditure function decreased, with regular instruction, special instruction, administration and operation and maintenance of plant being the most significant.

Norwalk City School District
Huron County
Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2011

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2011, the School District governmental activities had \$24,148,733 invested in land, land improvements, buildings and improvements, furniture and equipment, vehicles and textbooks. Table 4 shows fiscal year 2011 balances compared with fiscal year 2010.

(Table 4)
Capital Assets at June 30
(Net of Depreciation)

	Governmental Activities	
	2011	2010
Land	\$ 2,211,532	\$ 2,211,532
Land Improvements	788,277	846,863
Buildings and Improvements	19,665,834	20,477,862
Furniture and Equipment	1,035,859	954,361
Vehicles	425,967	430,329
Textbooks	21,264	27,339
Totals	\$ 24,148,733	\$ 24,948,286

The \$799,553 net decrease in capital assets can be attributed to current year depreciation expense exceeding current year purchases. For additional information regarding the capital assets of the School District, see Note 9.

Debt

At June 30, 2011, the School District had \$11,893,099 in net bonds outstanding with \$590,000 due within one year. During fiscal year 2011, \$565,000 of general obligation bonds were retired. Table 5 summarizes bonds outstanding.

Norwalk City School District
Huron County
Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2011

(Table 5)
Outstanding Debt, at June 30

	Governmental Activities	
	2011	2010
<i>General Obligation Bonds:</i>		
1998 High School Bonds		
Serial Bonds	\$ 2,335,000	\$ 2,830,000
2006 Capital Improvement (Refunding)		
Serial Bonds	8,755,000	8,825,000
Capital Appreciation Bonds	354,989	354,989
Accretion on Capital Appreciation Bonds	327,140	248,502
Unamortized Bond Premiums	363,321	386,028
Loss on Refunding	(242,351)	(257,498)
Totals	\$ 11,893,099	\$ 12,387,021

For additional information regarding long-term debt, see Note 14.

Current Issues

Beginning with fiscal year 2009, the School District's expenditures exceeded revenue, causing a deficit spending situation and a cash reduction of \$1.253 million. During the year ending June 30, 2010, the deficit spending continued, causing an erosion of the carryover balance of an additional \$1.412 million. The deficit amount for fiscal year 2011 was \$1.138 million. The projected deficit amount for fiscal year 2012 is \$1.858 million. The School District's five-year forecast reflects the current state biennial budget and trends.

Prior to 2009, the School District had maintained a good financial position. In the late 1980s, the School District experienced financial difficulties due to the failure of several proposed tax levies. In 1991, the School District was able to pass a half percent (.5%) school income tax levy, which generates approximately \$1.6 million annually. The State of Ohio Legislature passed HB1 effective July 1, 2009 which changed the funding formula for Ohio schools to an Evidence Based Model system which resulted in cuts to most districts due to the State of Ohio's inability to fund the new formula. HB153 passed in the summer of 2011 and eliminated the Evidence Based Model funding system and implemented a temporary "bridge formula" for fiscal year 2012. Following the November 2011 elections, Governor John Kasich is expected to unveil a new school funding system.

In August and September 2011 the School District settled contract negotiations with its two employment unions, the Norwalk Teacher's Association (OEA), and OAPSE Local #269. The medical insurance package was updated to reflect higher employee premium participation. During fiscal years 2012 and 2013 the employees will not receive an across the board percentage pay raise, only a step increase if they are eligible to move on the salary schedules. Step increases average 1.7 percent. The new negotiated contract agreements cover the periods July 1, 2011 through June 30, 2013.

Norwalk City School District
Huron County
Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2011

On July 31, 2009, Superintendent Dr. Wayne Babcanec and Assistant Superintendent Michael P. Gordon retired from Norwalk City Schools. A Superintendent search had been conducted by the Norwalk City Schools Board of Education with assistance from Ohio School Boards Association. Mr. Dennis J. Doughty was named Superintendent and Mr. Douglas Crooks was named Assistant Superintendent with employment contracts beginning August 1, 2009. Mr. Crooks left the School District on July 31, 2011 and was replaced by Ms. Sandra S. Goodsite as Assistant Superintendent effective August 10, 2011.

Contacting the School District's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the School District's finances and to reflect the School District's accountability for the monies it receives. Questions concerning any of the information in this report or requests for additional information should be directed to Treasurer Kenneth W. France, Norwalk City School District, 134 Benedict Avenue, Norwalk, OH 44857.

Norwalk City School District
Huron County, Ohio
Statement of Net Assets
June 30, 2011

	Governmental Activities
Assets	
Equity in Pooled Cash and Investments	\$ 13,244,448
Receivables:	
Property Taxes	7,670,676
Income Taxes	810,867
Intergovernmental	1,215,127
Accounts	3,031
Deferred Charges - Issuance Costs	120,968
Nondepreciable Capital Assets	2,211,532
Depreciable Capital Assets (Net)	21,937,201
 <i>Total Assets</i>	 47,213,850
Liabilities	
Accounts Payable	163,885
Accrued Wages and Benefits	2,525,441
Matured Compensated Absences	51,092
Intergovernmental Payable	734,695
Accrued Interest Payable	37,963
Deferred Revenue	6,115,507
Long Term Liabilities:	
Due Within One Year	923,405
Due in More Than One Year	12,947,537
 <i>Total Liabilities</i>	 23,499,525
Net Assets	
Invested in Capital Assets, Net of Related Debt	12,703,742
Restricted for:	
Capital Projects	1,397,362
Debt Service	1,491,345
Other Purposes	806,750
Set Asides	2,285,419
Unrestricted	5,029,707
 <i>Total Net Assets</i>	 \$ 23,714,325

See accompanying notes to the basic financial statements.

Norwalk City School District
Huron County, Ohio
Statement of Activities
For the Fiscal Year Ended June 30, 2011

	Program Revenues			Net (Expense)	
	Charges for	Operating	Capital	Revenue and Changes	
Expenses	Services	Grants,	Grants,	in Net Assets	
	and Sales	Contributions	Contributions	Governmental	
		and Interest	and Interest	Activities	
Governmental Activities					
Instruction:					
Regular	\$ 12,119,696	\$ 973,610	\$ 814,869	\$ 0	\$ (10,331,217)
Special	3,342,666	0	1,194,333	0	(2,148,333)
Vocational	156,908	0	34,790	0	(122,118)
Adult/Continuing	37,859	0	26,774	0	(11,085)
Other	1,284,042	0	0	0	(1,284,042)
Support services:					
Pupils	1,179,270	0	434,358	0	(744,912)
Instructional Staff	2,175,016	0	442,211	0	(1,732,805)
Board of Education	186,067	0	0	0	(186,067)
Administration	2,239,938	0	59,042	0	(2,180,896)
Fiscal	529,522	0	0	0	(529,522)
Business	145,621	0	0	0	(145,621)
Operation and Maintenance of Plant	2,679,126	0	0	119,883	(2,559,243)
Pupil Transportation	789,810	5,232	0	0	(784,578)
Central	97,283	0	28,170	0	(69,113)
Operation of Non-Instructional Services:					
Food Service Operations	1,131,447	340,995	708,911	0	(81,541)
Community Services	666,039	0	561,530	0	(104,509)
Extracurricular Activities	674,405	173,934	52,896	0	(447,575)
Interest and Fiscal Charges	543,980	0	0	0	(543,980)
Total Governmental Activities	\$ 29,978,695	\$ 1,493,771	\$ 4,357,884	\$ 119,883	(24,007,157)
General Revenues					
Property Taxes Levied for:					
					6,320,734
					1,026,673
					406,931
					1,804,257
					13,899,804
					104,152
					109,949
					<u>23,672,500</u>
					(334,657)
					<u>24,048,982</u>
					<u>\$ 23,714,325</u>

See accompanying notes to the basic financial statements.

Norwalk City School District
Huron County, Ohio
Balance Sheet
Governmental Funds
June 30, 2011

	General	Bond Retirement	Other Governmental Funds	Total Governmental Funds
Assets				
Equity in Pooled Cash and Investments	\$ 7,766,931	\$ 1,322,805	\$ 1,869,293	\$ 10,959,029
Restricted Cash and Investments	2,285,419	0	0	2,285,419
Receivables:				
Property Taxes	6,253,431	1,014,198	403,047	7,670,676
Income Taxes	810,867	0	0	810,867
Accounts	3,031	0	0	3,031
Interfund	6,537	0	0	6,537
Intergovernmental	25,760	0	1,189,367	1,215,127
<i>Total Assets</i>	<u>\$ 17,151,976</u>	<u>\$ 2,337,003</u>	<u>\$ 3,461,707</u>	<u>\$ 22,950,686</u>
Liabilities and Fund Balances				
Liabilities				
Accounts Payable	\$ 109,168	\$ 0	\$ 54,717	\$ 163,885
Accrued Wages and Benefits	2,214,401	0	311,040	2,525,441
Intergovernmental Payable	436,512	0	298,183	734,695
Interfund Payable	0	0	6,537	6,537
Deferred Revenue	5,424,790	859,011	1,312,297	7,596,098
Matured Compensated Absences	51,092	0	0	51,092
<i>Total Liabilities</i>	<u>8,235,963</u>	<u>859,011</u>	<u>1,982,774</u>	<u>11,077,748</u>
Fund Balances				
Restricted	2,285,419	1,477,992	1,675,535	5,438,946
Assigned	230,015	0	0	230,015
Unassigned	6,400,579	0	(196,602)	6,203,977
<i>Total Fund Balances</i>	<u>8,916,013</u>	<u>1,477,992</u>	<u>1,478,933</u>	<u>11,872,938</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$ 17,151,976</u>	<u>\$ 2,337,003</u>	<u>\$ 3,461,707</u>	<u>\$ 22,950,686</u>

See accompanying notes to the basic financial statements.

Norwalk City School District
Huron County, Ohio
Reconciliation of Total Governmental Fund Balances to
Net Assets of Governmental Activities
June 30, 2011

Total Governmental Fund Balances	\$	11,872,938
 <i>Amounts reported for governmental activities in the statement of net assets are different because:</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds		24,148,733
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		
Grants	\$ 969,540	
Property Taxes	386,458	
Income Tax	124,593	1,480,591
In the statement of activities, bond issuance costs are amortized over the term of the bonds, whereas in governmental funds a bond issuance expenditure is reported when bonds are issued.		120,968
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.		
General Obligation Bonds	(11,090,000)	
Capital Appreciation Bonds	(354,989)	
Bond Accretion	(327,140)	
Bond Premium	(363,321)	
Loss on Refunding	242,351	
Compensated Absences	(1,977,843)	
Accrued Interest Payable	(37,963)	(13,908,905)
 Net Assets of Governmental Activities	 \$	 <u>23,714,325</u>

See accompanying notes to the basic financial statements.

Norwalk City School District
Huron County, Ohio
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2011

	General	Bond Retirement	Other Governmental Funds	Total Governmental Funds
Revenues:				
Property Taxes	\$ 6,292,182	\$ 1,022,145	\$ 405,107	\$ 7,719,434
Income Taxes	1,796,429	0	0	1,796,429
Intergovernmental	12,995,799	72,752	4,501,608	17,570,159
Investment Income	104,152	0	5,995	110,147
Tuition and Fees	930,448	0	0	930,448
Extracurricular Activities	26,533	0	147,400	173,933
Rentals	42,352	0	0	42,352
Charges for Services	29,730	0	340,995	370,725
Gifts and Donations	182	0	113,146	113,328
Miscellaneous	104,660	0	5,288	109,948
<i>Total Revenues</i>	<u>22,322,467</u>	<u>1,094,897</u>	<u>5,519,539</u>	<u>28,936,903</u>
Expenditures:				
Current:				
Instruction:				
Regular	10,165,873	0	1,164,652	11,330,525
Special	2,157,023	0	1,221,564	3,378,587
Vocational	162,825	0	0	162,825
Adult/Continuing	19,409	0	18,450	37,859
Other	1,284,042	0	0	1,284,042
Support Services:				
Pupils	695,861	0	427,370	1,123,231
Instructional Staff	1,931,597	0	251,755	2,183,352
Board of Education	172,933	0	0	172,933
Administration	2,051,067	0	70,411	2,121,478
Fiscal	497,533	24,985	9,885	532,403
Business	57,525	0	0	57,525
Operation and Maintenance of Plant	2,383,167	0	21,055	2,404,222
Pupil Transportation	788,618	0	100	788,718
Central	65,332	0	31,951	97,283
Operation of Non-Instructional Services:				
Food Service Operations	0	0	1,127,984	1,127,984
Community Services	21,430	0	625,968	647,398
Extracurricular Activities	453,170	0	187,084	640,254
Capital Outlay	68,682	0	360,362	429,044
Debt Service:				
Principal Retirement	0	565,000	0	565,000
Interest and Fiscal Charges	0	467,299	0	467,299
<i>Total Expenditures</i>	<u>22,976,087</u>	<u>1,057,284</u>	<u>5,518,591</u>	<u>29,551,962</u>
<i>Net Change in Fund Balance</i>	(653,620)	37,613	948	(615,059)
<i>Fund Balance (Deficit) Beginning of Year (Restated, See Note 4)</i>	<u>9,569,633</u>	<u>1,440,379</u>	<u>1,477,985</u>	<u>12,487,997</u>
<i>Fund Balance (Deficit) End of Year</i>	<u>\$ 8,916,013</u>	<u>\$ 1,477,992</u>	<u>\$ 1,478,933</u>	<u>\$ 11,872,938</u>

See accompanying notes to the basic financial statements.

Norwalk City School District
Huron County, Ohio
Reconciliation of Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For the Fiscal Year Ended June 30, 2011

Net Change in Fund Balances - Total Governmental Funds \$ (615,059)

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

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

Capital Asset Additions	\$ 524,782	
Current Year Depreciation	(1,324,335)	(799,553)

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

Grants	664,404	
Delinquent Property Taxes	34,903	
Income Tax	7,828	707,135

Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. 565,000

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

Amortization of Bond Issuance Costs	(7,560)	
Amortization of Bond Premium	22,707	
Amortization of Loss on Refunding	(15,147)	
Bond Accretion	(78,638)	
(Increase) Decrease in Compensated Absences	(115,499)	
(Increase) Decrease in Accrued Interest	1,957	(192,180)

Change in Net Assets of Governmental Activities \$ (334,657)

See accompanying notes to the basic financial statements.

Norwalk City School District
Huron County, Ohio
Statement of Revenues, Expenditures, and Changes in Fund Balance -
Budget (Non-GAAP Basis) and Actual
General Fund
For the Fiscal Year Ended June 30, 2011

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues:				
Property Taxes	\$ 5,366,130	\$ 5,366,130	\$ 5,998,793	\$ 632,663
Income Taxes	1,864,532	1,864,532	1,675,210	(189,322)
Intergovernmental	12,607,386	12,607,386	12,987,215	379,829
Investment Income	100,000	100,000	103,991	3,991
Tuition and Fees	909,602	909,602	929,365	19,763
Rentals	20,000	20,000	42,352	22,352
Extracurricular Activities	20,000	20,000	26,533	6,533
Gifts and Donations	0	0	182	182
Charges for Services	10,000	10,000	27,660	17,660
Miscellaneous	130,000	130,000	50,804	(79,196)
<i>Total Revenues</i>	<u>21,027,650</u>	<u>21,027,650</u>	<u>21,842,105</u>	<u>814,455</u>
Expenditures:				
Current				
Instruction:				
Regular	12,004,151	11,893,149	9,927,581	1,965,568
Special	3,247,665	3,192,563	2,205,169	987,394
Vocational	208,080	204,448	154,897	49,551
Adult/Continuing	19,342	23,893	19,168	4,725
Other	1,660,975	1,631,000	1,278,467	352,533
Support Services				
Pupils	719,312	719,482	719,482	0
Instructional Staff	2,069,653	2,041,284	2,038,763	2,521
Board of Education	239,585	235,450	176,348	59,102
Administration	2,234,501	2,250,044	2,014,157	235,887
Fiscal	564,871	553,989	478,537	75,452
Business	97,873	96,547	56,541	40,006
Operation and Maintenance of Plant	3,259,103	3,224,636	2,468,961	755,675
Pupil Transportation	969,656	994,253	829,041	165,212
Central	160,249	158,723	65,077	93,646
Operation of Non-Instructional Services	35,885	35,337	23,373	11,964
Extracurricular Activities	537,203	529,570	456,539	73,031
Capital Outlay	182,142	179,009	90,969	88,040
<i>Total Expenditures</i>	<u>28,210,246</u>	<u>27,963,377</u>	<u>23,003,070</u>	<u>4,960,307</u>
Excess of Revenues Over (Under) Expenditures	(7,182,596)	(6,935,727)	(1,160,965)	(4,145,852)
Other Financing Sources (Uses):				
Refund of Prior Year Expenditures	30,000	30,000	22,380	(7,620)
Transfers Out	(647,743)	(1,147,743)	0	1,147,743
Refund of Prior Year Receipts	0	0	(152,577)	(152,577)
<i>Total Other Financing Sources (Uses)</i>	<u>(617,743)</u>	<u>(1,117,743)</u>	<u>(130,197)</u>	<u>987,546</u>
<i>Net Change in Fund Balance</i>	(7,800,339)	(8,053,470)	(1,291,162)	5,133,398
<i>Fund Balance Beginning of Year</i>	10,147,289	10,147,289	10,147,289	0
Prior Year Encumbrances Appropriated	848,725	848,725	848,725	0
<i>Fund Balance End of Year</i>	<u>\$ 3,195,675</u>	<u>\$ 2,942,544</u>	<u>\$ 9,704,852</u>	<u>\$ 5,133,398</u>

See accompanying notes to the basic financial statements.

Norwalk City School District
Huron County, Ohio
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2011

	Private Purpose Trust	
	Scholarship	Agency
Assets		
Equity in Pooled Cash and Investments	\$ 102,196	\$ 36,227
Liabilities		
Accounts Payable	1,352	\$ 500
Due to Students	0	35,727
Total Liabilities	1,352	\$ 36,227
Net Assets		
Held in Trust for Scholarships	100,844	
<i>Total Net Assets</i>	\$ 100,844	

See accompanying notes to the basic financial statements.

Norwalk City School District
Huron County, Ohio
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
For the Fiscal Year Ended June 30, 2011

	Private Purpose Trust
	Scholarship
Additions:	
Gifts and Contributions	\$ 28,769
Interest	2,781
Total Additions	31,550
Deductions:	
Payments in Accordance with Trust Agreements	10,772
<i>Change in Net Assets</i>	20,778
<i>Net Assets Beginning of Year (Restated, See Note 4)</i>	80,066
<i>Net Assets End of Year</i>	\$ 100,844

See accompanying notes to the basic financial statements.

Norwalk City School District
Huron County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

NOTE 1 – DESCRIPTION OF THE SCHOOL DISTRICT

The Norwalk City School District (the School District) is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The School District is a City School District as defined by Section 3311.04 of the Ohio Revised Code. The School District operates under an elected Board of Education, consisting of five members, and is responsible for providing public education to residents of the School District. Average daily membership on, or as of, October 2010, was 2,941. The School District employs 191 certificated and 124 non-certificated employees.

Reporting Entity

The reporting entity is required to be composed of the primary government, component units, and other organizations that are included to ensure 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 the School District, this includes general operations, food service, and student related activities of the School District.

Component units are legally separate organizations for which the School District is financially accountable. The School District is financially accountable for an organization if the School District appoints a voting majority of the organization's governing board and 1) the School District is able to significantly influence the programs or services performed or provided by the organization; or 2) the School District is legally obligated or has otherwise assumed the responsibility to finance the deficits of or provided 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. Management believes the financial statements included in the report represent all of the funds of the School District over which the School District has the ability to exercise direct operating control.

The School District participates in two jointly governed organizations and two insurance purchasing pools. These organizations are the Bay Area Council of Governments (BACG), the Northern Ohio Educational Computer Association (NOECA), the Huron-Erie School Employees Insurance Association (HESEIA) and the Ohio School Boards Association Workers' Compensation Group Rating Program. These organizations are presented in Notes 10 and 15 to the basic financial statements.

Parochial Schools - Within the School District boundaries, the Norwalk Catholic Schools (formerly known as St. Mary's Elementary, St. Paul Elementary and the St. Paul High School) are operated through the Toledo Catholic Diocese. Current State legislation provides funding to these parochial schools. These monies are received and disbursed on behalf of the parochial schools by the Treasurer of the School District, as directed by the parochial schools and are accounted for in the auxiliary services fund.

Norwalk City School District
Huron County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the 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 School District also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, to its governmental activities provided they do not conflict with or contradict GASB pronouncements. The FASB has codified its standards and the standards issued prior to November 30, 1989 are included in the codification. The more significant of the School District's accounting policies are described below.

A. Basis of Presentation

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

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

The statement of net assets presents the financial condition of the governmental activities of the School District at year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the School District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program and interest earned on grants that is required to be used to support a particular program. Revenues which are not classified as program revenues are presented as general revenues of the School District, with certain limitations. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the School District.

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

B. Fund Accounting

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

Norwalk City School District
Huron County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

The other governmental funds of the School District account for grants, capital projects and other resources to which the School District is bound to observe constraints imposed upon the use of the resources.

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

C. Measurement Focus

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

Fund Financial Statements All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include reconciliations with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds. The private purpose trust funds are reported using the economic resources measurement focus and are excluded from the governmental activities. Agency funds do not report a measurement focus as they do not report operations.

Norwalk City School District
Huron County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Basis of Accounting

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

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

Nonexchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes, income tax, grants, entitlements and donations. Revenue from property taxes is recognized in the fiscal year for which the taxes are levied (See Note 7). Income taxes are recognized as revenue on the accrual basis in the period in which income is earned. 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 nonexchange transactions must also be available before it can be recognized.

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

Deferred Revenue Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Grants and entitlements received before the eligibility requirements are met are recorded as deferred revenue. Property taxes for which there is an enforceable legal claim as of June 30, 2011, but which were levied to finance fiscal year 2012 operations, have been recorded as deferred revenue on the balance sheet. This amount is reported as deferred revenue on the statement of net assets, however excludes delinquent amounts earned as of year-end.

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

Norwalk City School District
Huron County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Expenses/Expenditures On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported in the operating statement as an expense with a like amount reported as “operating grants, contributions and interest” program revenue.

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

E. Budgetary Data

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

The certificate of estimated resources may be amended during the year if projected increases or decreases in revenue are identified by the School District Treasurer. The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts in the certificate when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts in the final amended certificate issued during fiscal year 2011.

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

F. Cash and Investments

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

During fiscal year 2011, investments were limited to marketable securities, a money market account, certificates of deposit and STAROhio, (the State Treasurer's Investment Pool).

Except for nonparticipating investment contracts, investments are reported at fair value which is based on quoted market prices.

Norwalk City School District
Huron County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

STAROhio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price which is the price the investment could be sold for on June 30, 2011. Certificates of deposit are reported at cost.

Following Ohio statutes, the Board of Education has, by resolution, identified the funds to receive an allocation of interest. Interest revenue credited to the general fund during fiscal year 2011 amounted to \$104,116, which includes \$24,760 assigned from other School District funds.

Investments of the cash management pool and investments with a maturity of three months or less at the time they are purchased by the School District are presented on the financial statements as "equity in pooled cash and investments". Investments with an original maturity of more than three months that are not made from the pool are reported as "investments".

G. Restricted Assets

Assets are reported as restricted when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments or imposed by enabling legislation. Restricted assets include amounts required by statute to be set-aside for the purchase of textbooks and other instructional materials and capital improvements. See Note 19 for additional information regarding set asides.

H. Capital Assets

General capital assets are those assets not specifically related to activities and are generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

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

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

Norwalk City School District
Huron County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Description	Governmental Activities Estimated Lives
Land Improvements	15 - 30 Years
Buildings and Improvements	15 - 30 Years
Furniture and Equipment	5 - 20 Years
Vehicles	5 - 15 Years
Textbooks	5 Years

I. Interfund Balances

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

J. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employee's rights to receive compensation are attributable to services already rendered and it is probable that the employer will compensate the employees for the benefits through paid time off or some other means.

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.

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

For the governmental fund financial statements, compensated absences are recognized as liabilities and expenditures to the extent payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the account "matured compensated absences" payable in the fund from which the employees who have accumulated leave are paid.

K. Accrued Liabilities and Long-term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements.

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

Norwalk City School District
Huron County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

L. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net 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. Net assets restricted for other purposes primarily include extracurricular activities and food service operations. There were no net assets restricted by enabling legislation.

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

M. Fund Balance

In accordance with Governmental Accounting Standards Board Statement No. 54, “*Fund Balance Reporting and Governmental Fund Type Definitions*,” the School 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 School District Board of Education. Those committed amounts cannot be used for any other purpose unless the School District Board of Education removes or changes the specified use by taking the same type of action (resolution) it employed to previously commit those amounts. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

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

Norwalk City School District
Huron County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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

N. Interfund Activity

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

O. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal 2011.

P. 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.

Q. Implementation of New Accounting Principles

For the year ended June 30, 2011, the School District has implemented Governmental Accounting Standards Board (GASB) Statement No. 54, “*Fund Balance Reporting and Governmental Fund Type Definitions*” and GASB Statement No. 59, “*Financial Instruments Omnibus*.”

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.

Norwalk City School District
Huron County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

GASB Statement No. 59 updated and improved existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools for which significant issues have been identified in practice. Implementation of this GASB statement did not affect the presentation of the financial statements of the School District.

NOTE 3 - ACCOUNTABILITY

Fund balances at June 30, 2011 included the following individual fund deficits:

	<u>Deficit Fund Balance</u>
Nonmajor Governmental Funds:	
Public Preschool	\$ 9,387
EMIS	2,035
Vocational Educational Enhancement	1,185
Adult Basic Education	10,190
Title VI-B	83,841
Title I	82,988
Preschool Grant	6,055
Title II-A	921

The deficits in these nonmajor governmental funds resulted from adjustments for accrued liabilities. The general fund is liable for any deficit in these nonmajor funds and will provide transfers when cash is required, not when accruals occur.

Norwalk City School District
Huron County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

NOTE 4: RESTATEMENT OF FUND BALANCE AND NET ASSETS

Fund reclassifications are required in order to report funds in accordance with GASB Statement No. 54, “Fund Balance Reporting and Governmental Fund Type Definitions.” Also, during fiscal year 2011, the School District changed the method of estimating compensated absences liability from the vesting method to the termination method. Both methods are accepted by GAAP. As a result of these changes, fund balances and net assets have been restated as follows:

	<u>General</u>	<u>Non-Major Governmental</u>
Fund Balance Previously Reported at June 30, 2010	\$ 9,488,587	\$ 1,573,349
Fund Reclassification:		
Private Purpose Trust	0	(14,318)
Expendable Trust	1,972	(1,972)
Uniform School Supplies	5,315	(5,315)
Public School Support Fund	73,759	(73,759)
Restated Fund Balance at July 1, 2010	<u>\$ 9,569,633</u>	<u>\$ 1,477,985</u>

	<u>Governmental Activities</u>	<u>Private Purpose Trust Funds</u>
Net Assets Previously Reported at June 30, 2010	\$ 24,799,806	\$ 65,748
Fund Reclassification		
Private Purpose Trust Funds	(14,318)	14,318
Restatement of Compensated Absences	(736,506)	-
Restated Net Assets at July 1, 2010	<u>\$ 24,048,982</u>	<u>\$ 80,066</u>

Norwalk City School District
Huron County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

NOTE 5 – BUDGETARY BASIS OF ACCOUNTING

While the School District is reporting financial position, results of operations and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The Statement of Revenues, Expenditures and Changes in Fund Balance - Budget (Non-GAAP Basis) and Actual, is presented for the general fund 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) as opposed to when susceptible to accrual (GAAP).
2. Expenditures/expenses are recorded when paid in cash (budget) as opposed to when the liability is incurred (GAAP).
3. Encumbrances are treated as expenditures (budget) rather than as a reservation of fund balance (GAAP).
4. Some funds are included in the general fund (GAAP), but have separate legally adopted budgets (budget).

The following table summarizes the adjustments necessary to reconcile the GAAP basis statement to the budgetary basis statement on a fund type basis for the general fund.

Net Change in Fund Balance	
GAAP Basis	\$ (653,620)
Net Adjustment for Revenue Accruals	(389,809)
Net Adjustment for Expenditure Accruals	23,989
Funds Budgeted Elsewhere **	8,222
Adjustment for Encumbrances	<u>(279,944)</u>
Budget Basis	<u><u>\$ (1,291,162)</u></u>

** As part of Governmental Accounting Standards Board Statement No. 54, “*Fund Balance Reporting and Governmental Fund Type Definitions*,” certain funds that are legally budgeted in separate special revenue funds are considered part of the general fund on a GAAP basis. This includes public school support funds, expendable trust and uniform school supplies fund.

Norwalk City School District
Huron County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

NOTE 6 – 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 time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts.

Protection of School District's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), 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.

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 securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the 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;

Norwalk City School District
Huron County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

NOTE 6 – DEPOSITS AND INVESTMENTS (Continued)

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 (STAROhio);
7. Certain banker's acceptance and commercial paper notes for a period not to exceed one hundred eighty days from the purchase date in an amount not to exceed 25 percent of the interim monies available for investment at any one time; and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest classifications by at least two nationally recognized rating agencies.

Investments in stripped principal or interest obligations reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the 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.

Custodial credit risk is the risk that in the event of bank failure, the government's deposits may not be returned to it. Protection of School District cash and deposits is provided by the Federal Deposit Insurance Corporation, as well as qualified securities pledged by the institution holding the assets. By law, financial institutions must collateralize all uninsured public deposits. The face value of the pooled collateral must equal at least 105% of uninsured public funds deposited. Collateral is held by trustees including the Federal Reserve Bank and designated third party trustees of the financial institutions.

Cash on Hand: At year end, the School District had \$8,470 in undeposited cash on hand which is included on the balance sheet of the School District as part of equity in pooled cash and investments.

Deposits: The carrying value of the School District's deposits totaled \$2,265,150 and the bank balances of the deposits totaled \$2,504,340. \$1,121,192 of the bank balance was covered by federal depository insurance and \$1,383,148 was uninsured and uncollateralized. Although the securities serving as collateral were held by the pledging institution in the pledging institution's name, and all State statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the School District to a successful claim by the FDIC.

Norwalk City School District
Huron County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

NOTE 6 – DEPOSITS AND INVESTMENTS (Continued)

Investments

Investments are reported at fair value. As of June 30, 2011, the School District had the following investments:

Standard & Poor's Rating	Fair Value	Investment Maturities (in months)			% Investments	
		0 - 12	12 - 24	24 - 36		
AAAm	STAROhio	\$ 852,101	\$ 852,101	\$ 0	\$ 0	7.68%
AAAm	Fifth Third Money Market	39,873	39,873	0	0	0.36%
AAA	Federal Home Loan Mortgage Corporation	500,000	0	0	500,000	4.50%
AAA	Federal Home Loan Bank	520,005	0	0	520,005	4.68%
AAA	Federal Home Loan Bank	530,152	0	0	530,152	4.77%
AAA	Federal Home Loan Bank	905,148	0	0	905,148	8.15%
AAA	Federal Home Loan Bank	500,145	0	0	500,145	4.50%
AAA	Federal Home Loan Bank	500,510	0	0	500,510	4.51%
AAA	Federal Home Loan Bank	500,510	0	0	500,510	4.51%
AAA	Federal Home Loan Bank	500,000	0	0	500,000	4.50%
AAA	Federal Home Loan Bank	500,000	0	0	500,000	4.50%
AAA	Federal Home Loan Bank	503,500	0	0	503,500	4.53%
AAA	Federal Home Loan Bank	503,250	0	0	503,250	4.53%
AAA	Federal National Mortgage Association	500,000	0	0	500,000	4.50%
AAA	Federal National Mortgage Association	503,350	0	0	503,350	4.53%
AAA	Federal National Mortgage Association	500,430	0	0	500,430	4.50%
AAA	Federal National Mortgage Association	500,089	0	0	500,089	4.50%
AAA	Federal National Mortgage Association	750,188	750,188	0	0	6.75%
AAA	Federal National Mortgage Association	500,000	0	0	500,000	4.50%
AAA	Federal National Mortgage Association	500,000	0	0	500,000	4.50%
AAA	Federal National Mortgage Association	500,000	0	0	500,000	4.50%
	Totals	\$ 11,109,251	\$ 1,642,162	\$ 0	\$ 9,467,089	100.00%

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 School District's investments at June 30, 2011 in Federal Home Loan Bank, Federal National Mortgage Association, Federal Home Loan Mortgage Corporation are rated AAA by Standard & Poor's. Its investments in STAROhio and Fifth Third Money Markets are rated AAAm by Standard & Poor's. The School District's policy does not address credit risk.

Concentration of Credit Risk: The School District places no limit on the amount the School District may invest in any one issuer. More than 5 percent of the School District's investments are in Federal National Mortgage Association, Federal Home Loan Bank, Federal Home Loan Mortgage and STAROhio as listed above.

Norwalk City School District
Huron County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

NOTE 6 – DEPOSITS AND INVESTMENTS (Continued)

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 School District has no investment policy dealing with investment custodial risk beyond the requirement in Ohio law that prohibits payment for investments prior to the delivery of the securities representing such investments to the treasurer or qualified trustee.

NOTE 7 – PROPERTY TAXES AND INCOME TAXES

A. 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 (used in business) located in the School District. Real property tax revenue received in calendar year 2011 represents collections of calendar year 2010 taxes. Real property taxes received in calendar year 2011 were levied after April 1, 2010, on the assessed value listed as of January 1, 2010, the lien date. Assessed values for real property taxes are established by State law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar 2011 represents collections of calendar year 2010 taxes. Public utility real and tangible personal property taxes received in calendar year 2011 became a lien December 31, 2009, were levied after April 1, 2010 and are collected in 2011 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

Tangible personal property tax revenue received during calendar 2011 (other than public utility property) represents the collection of 2011 taxes levied against local and inter-exchange telephone companies. Tangible personal property tax on business inventory, manufacturing machinery and equipment, and furniture and fixtures is no longer levied and collected. The October 2008 tangible personal property tax settlement was the last property tax settlement for general personal property taxes. Tangible personal property taxes received from telephone companies in calendar year 2011 were levied after October 1, 2010, on the value as of December 31, 2010. Amounts 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. Tangible personal property taxes paid by April 30 are usually received by the School District prior to June 30.

Norwalk City School District
Huron County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

NOTE 7 – PROPERTY TAXES AND INCOME TAXES (Continued)

House Bill No. 66 was signed into law on June 30, 2005. House Bill No. 66 phases 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 by calendar year 2009, and the tax on telephone and telecommunications property will be eliminated during calendar year 2011. The tax is phased out by reducing the assessment rate on the property each year. The bill replaces the revenue lost by the School District due to the phasing out of the tax. In calendar years 2006-2010, the School District was fully reimbursed for the lost revenue. In calendar years 2011-2017, the reimbursements will be phased out.

The assessed values upon which the fiscal year 2011 taxes were collected are:

	2010 Second Half Collections		2011 First Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential and Other Real Estate	\$ 323,885,720	97.26%	\$ 324,030,090	97.21%
Public Utility	9,111,550	2.74%	9,306,820	2.79%
	\$ 332,997,270	100.00%	\$ 333,336,910	100.00%
Tax rate per \$1,000 assessed valuation	\$ 43.95		\$ 43.95	

The School District receives property taxes from Huron County. The County Auditor periodically advances to the School District their portion of the taxes collected. Second-half real property tax payments collected by the Counties by June 30, 2011, are available to finance fiscal year 2011 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable includes real property, public utility real property and tangible personal property taxes which are measurable as of June 30, 2011 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the delayed personal property tax and the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue.

The amount available as an advance at June 30, 2011, was \$1,168,711 and is recognized as revenue. \$953,234 was available to the general fund, \$60,290 was available in the permanent improvement fund and \$155,187 was available to the debt service fund.

Norwalk City School District
Huron County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

NOTE 7 – PROPERTY TAXES AND INCOME TAXES (Continued)

B. Income Taxes

The School District has a 0.5 percent income tax levy that is collected on earned income. Employers of residents are required to withhold income tax on compensation and remit the tax to the State. Taxpayers are required to file an annual return. The State makes quarterly distributions to the School District after withholding amounts for administrative fees and estimated refunds. Income tax receipts are credited to the general fund.

NOTE 8 - RECEIVABLES

Receivables at June 30, 2011, consisted of property taxes, income taxes, accounts, interfund, and intergovernmental. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current fiscal year guarantee of federal funds. All are expected to be received within one year.

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Norwalk City School District
Huron County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

NOTE 9 – CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2011, was as follows:

	Balance 6/30/10	Additions	Reductions	Balance 6/30/11
Governmental Activities				
<i>Capital Assets, not being depreciated:</i>				
Land	\$ 2,211,532	\$ 0	\$ 0	\$ 2,211,532
Total Capital Assets, not being depreciated	2,211,532	0	0	2,211,532
<i>Capital Assets, being depreciated:</i>				
Land Improvements	1,928,286	28,055	0	1,956,341
Buildings and Improvements	32,165,166	45,482	0	32,210,648
Furniture and Equipment	2,648,709	354,232	0	3,002,941
Vehicles	1,529,991	97,013	(64,000)	1,563,004
Textbooks	764,433	0	0	764,433
Total Capital Assets, being depreciated	39,036,585	524,782	(64,000)	39,497,367
Less Accumulated Depreciation:				
Land Improvements	(1,081,423)	(86,641)	0	(1,168,064)
Buildings and Improvements	(11,687,304)	(857,510)	0	(12,544,814)
Furniture and Equipment	(1,694,348)	(272,734)	0	(1,967,082)
Vehicles	(1,099,662)	(101,375)	64,000	(1,137,037)
Textbooks	(737,094)	(6,075)	0	(743,169)
Total Accumulated Depreciation	(16,299,831)	(1,324,335)	64,000	(17,560,166)
Total Capital Assets being depreciated, net	22,736,754	(799,553)	0	21,937,201
Governmental Activities Capital Assets, Net	\$ 24,948,286	\$ (799,553)	\$ 0	\$ 24,148,733

Norwalk City School District
Huron County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

NOTE 9 – CAPITAL ASSETS (Continued)

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$ 852,766
Special	1,239
Vocational	936
Support Services:	
Instructional Staff	145,354
Board of Education	13,134
Fiscal	1,612
Business	88,096
Operation and Maintenance of Plant	84,172
Pupil Transportaion	89,446
Food Service Operations	32,149
Extracurricular Activities	15,431
	<hr/>
Total Depreciation	<u><u>\$ 1,324,335</u></u>

NOTE 10 – RISK MANAGEMENT

A. Property and Liability

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. In October 1981, the School District joined together with thirteen other School Districts in two counties to form the Huron-Erie School Employees Insurance Association (HESEIA), a public entity risk pool currently operating as a common risk management and insurance program. The School District pays an annual premium to the pool for its general insurance coverage. The risk of loss transfers entirely from the School District to HESEIA. The Agreement for Formation of the HESEIA provides that the HESEIA will be self-sustaining through member premiums and will reinsure through commercial coverage for claims in excess of \$200,000 pooling level per year. There were no significant reductions in insurance coverage from the prior year. Also, covered claims have not exceeded coverage in any of the past three years.

B. Workers' Compensation

The School District participates in the Ohio School Boards Association Workers' Compensation Group Rating Program (Program), an insurance purchasing pool. The Program's business and affairs are conducted by a three member Board of Directors consisting of the President, the President-Elect and the Immediate Past President of the OSBA. The Executive Director of the OSBA, or his designee, serves as coordinator of the program. Each year, the participating School Districts pay an enrollment fee to the Program to cover the costs of administering the program.

Norwalk City School District
Huron County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

NOTE 10 – RISK MANAGEMENT (Continued)

The intent of the Program 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 Program. 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 Program. Each participant pays its workers' compensation premium to the State based on the rate for the Program 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 Program. 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 Program. Participation in the Program is limited to school districts that can meet the Program's selection criteria. The firm of CompManagement, Inc. provides administrative, cost control and actuarial services to the Program.

NOTE 11 – OTHER EMPLOYEE BENEFITS

The criteria for determining vacation and sick leave components are derived from negotiated agreements and State laws. Classified employees earn 10 to 25 days of vacation per year, depending upon length of service. Accumulated unused vacation time is paid to classified employees upon termination of employment. Teachers and administrators do not earn vacation time, with the exception of the Superintendent, Treasurer, and High School Principal.

Teachers, administrators, and classified employees earn sick leave at a rate of one and one-fourth days per month. Accumulation of sick leave is unlimited for all groups. Upon retirement, payment is made for one-fourth of their accrued, but unused sick leave credit to a maximum of 85 days. Certified and classified employees earn ½ day irrevocable severance if they don't use their 2 days of personal leave in any given year. In addition, classified employees may earn an additional 1-2 days of irrevocable severance days if only 0-6 days of sick leave are used within a year. The accumulated irrevocable severance is paid to employees upon termination of employment. A liability for the balance is included in compensated absences (see Note 14).

NOTE 12 – DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

Plan Description - The School District contributes to the School Employees Retirement System of Ohio ("SERS"), a cost-sharing multiple employer pension plan. SERS provides retirement and 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 Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report can be obtained on SERS' website at www.ohsers.org under Employers/Audit Resources.

Norwalk City School District
Huron County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

NOTE 12 – DEFINED BENEFIT PENSION PLANS (Continued)

Funding Policy - 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 2011, 11.81 percent of annual covered salary was the portion used to fund pension obligations and death benefits. The remaining 2.19 percent of the 14 percent employer contribution rate is allocated to the Health Care and Medicare B Funds. The contribution requirements of plan members and employers are established and may be amended up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The School District's contributions for pension obligations to SERS for the years ended June 30, 2011, 2010, and 2009 were \$399,470, \$422,771 and \$276,514, respectively; 45 percent has been contributed for fiscal year 2011 and 100 percent for the fiscal years 2010 and 2009.

B. State Teachers Retirement System

The School District participates in the State Teachers Retirement System of Ohio ("STRS Ohio"), a cost-sharing, multiple-employer defined benefit pension plan. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a publicly-available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to STRS Ohio, 275 East Broad Street, Columbus, Ohio 43215-3371, by calling (888) 227-7877, or by visiting the STRS Ohio website 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 member contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DC Plan allows members to allocate their member contributions and employer contributions equal to 10.5 percent of earned compensation among various investment accounts. 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.

A DB or Combined Plan member with five or more years of 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.

Norwalk City School District
Huron County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

NOTE 12 – DEFINED BENEFIT PENSION PLANS (Continued)

For the fiscal year ended June 30, 2011, plan members were required to contribute 10 percent of their annual covered salaries. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2010, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employer contributions.

The School District's required contributions for pension obligations to the DB Plan for the fiscal years ended June 30, 2011, 2010, and 2009 were \$1,588,780, \$1,542,782, and \$1,517,590, respectively; 84 percent has been contributed for fiscal year 2011 and 100 percent for fiscal years 2010 and 2009. Contributions to the DC and Combined Plans for fiscal year 2011 were \$9,513 made by the School District and \$23,687 made by the plan members.

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 have an option to choose Social Security or the School Employees Retirement System/State Teachers Retirement System. As of June 30, 2011, one member of the Board of Education has elected Social Security. The Board's liability is 6.2 percent of wages paid.

NOTE 13 – POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

The School District participates in two cost-sharing multiple employer defined benefit OPEB plans administered by SERS for non-certified retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan included hospitalization and physicians' fees through several types of plans including HMO's, Medicare Advantage, PPO's and traditional indemnity plans as well as a prescription drug program. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries up to a statutory limit. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746. It is also posted on SERS' website at www.ohsers.org under Employers/Audit Resources.

State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocated the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 401h. For fiscal year 2011, 1.43 percent of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined amount; for fiscal year 2011, this amount was \$35,800.

Norwalk City School District
Huron County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

NOTE 13 – POSTEMPLOYMENT BENEFITS (Continued)

Active employee members do not contribute to the Health Care Plan. Retirees and their beneficiaries are required to pay a health care premium that varies depending on the plan selected, the number of qualified years of service, Medicare eligibility and retirement status.

The School District's contributions for health care for the fiscal years ended June 30, 2011, 2010, and 2009 were \$48,369, \$15,217 and \$126,545, respectively; 45 percent has been contributed for fiscal year 2011 and 100 percent for fiscal years 2010 and 2009.

The Retirement Board, acting with the advice of the actuary, allocates a portion of the current employer contribution to the Medicare B Fund. For fiscal year 2011, the actuarially required allocation was 0.76 percent of covered payroll. The School District's contributions for Medicare Part B for the fiscal years 2011, 2010 and 2009 were \$25,707, \$25,141 and \$22,815, respectively; 45 percent has been contributed for fiscal year 2011 and 100 percent for fiscal years 2010 and 2009.

B. State Teachers Retirement System

The School 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.

Ohio law authorized 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 2011, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The School District's contributions for health care for fiscal years ended June 30, 2011, 2010 and 2009 were \$122,214, \$118,676 and \$116,738, respectively; 84 percent has been contributed for fiscal year 2011 and 100 percent for fiscal years 2010 and 2009.

Norwalk City School District
Huron County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

NOTE 14 - LONG - TERM OBLIGATIONS

The changes in the School District's long-term obligations during the year consist of the following:

	Restated Outstanding 6/30/10	Additions	Reductions	Outstanding 6/30/11	Amounts Due in One Year
Governmental Activities:					
General Obligation Bonds:					
1999 High School Bonds	\$ 2,830,000	\$ 0	\$ 495,000	\$ 2,335,000	\$ 515,000
2006 Refunding Bonds					
Serial Bonds \$9,145,000 at 3.5% - 4.1%	8,825,000	0	70,000	8,755,000	75,000
Capital Appreciation Bonds	354,989	0	0	354,989	0
Accretion of Interest	248,502	78,638	0	327,140	0
Bond Premium	386,028	0	22,707	363,321	0
Loss on Refunding	(257,498)	0	(15,147)	(242,351)	0
Total General Obligation Bonds	12,387,021	78,638	572,560	11,893,099	590,000
Compensated Absences	1,862,344	448,904	333,405	1,977,843	333,405
Total Governmental Activities Long-Term Liabilities	\$ 14,249,365	\$ 527,542	\$ 905,965	\$ 13,870,942	\$ 923,405

1999 Additions/Facilities

On March 1, 1999, the School District issued general obligation bonds for the construction of a new high school. The bond issue consisted of serial and capital appreciation bonds. Only the serial bonds remain outstanding at year-end. These bonds are not subject to early redemption. The serial bonds mature in December 2015.

2006 School Improvement Refunding Bonds

On February 1, 2006, the School District issued \$9,499,989 refunding general obligation bonds. The proceeds of the bonds were used to refund \$9,499,989 of the School District's outstanding Capital Improvement Bonds. The bonds were issued for a 20 year period with final maturity at December 1, 2026. At the date of the refunding, \$9,818,075 (including premium and after underwriting fees) was deposited in an irrevocable trust to provide for all future payments on the refunded bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the governmental column of the statement of net assets. The defeased bonds were optionally redeemed on December 1, 2009.

These refunding bonds were issued with a premium of \$476,856, which is reported as an increase to long-term obligations. The amounts are being amortized to interest expenses over the life of the bonds using the straight-line method.

Norwalk City School District
Huron County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

NOTE 14 - LONG - TERM OBLIGATIONS (Continued)

The issuance costs have been reported as deferred charges and will be amortized over the life of the bonds. The issuance resulted in a difference between the cash flows required to service the old debt and the cash flows required to service the new debt of \$1,085,728. The issuance resulted in an economic gain of \$734,114.

The bond issue consists of serial and capital appreciation bonds. These bonds are not subject to early redemption.

The capital appreciation bonds mature December 1, 2015 and 2016. These bonds were purchased at a substantial discount at the time of issuance. At maturity all compounded interest is paid and the bond holder receives the face value of the bond. As the value of the bond increases, the accretion is reflected as principal liability. The maturity amount of the bonds is \$1,265,000.

General obligation bonds will be paid from the debt service fund. Compensated absences will be paid from the general and food service funds.

Principal and interest requirements to retire general obligation bonds outstanding at June 30, 2011 are as follows:

Fiscal Year Ending June 30,	Serial Bonds		Capital Appreciation Bonds		Total	
	Principal	Interest	Principal	Accretion	Principal	Accretion/ Interest
2012	\$ 590,000	\$ 442,913	\$ 0	\$ 0	\$ 590,000	\$ 442,913
2013	610,000	416,920	0	0	610,000	416,920
2014	640,000	389,290	0	0	640,000	389,290
2015	665,000	359,823	0	0	665,000	359,823
2016	140,000	341,311	167,938	392,062	307,938	733,373
2017 - 2021	2,985,000	1,456,826	187,051	517,949	3,172,051	1,974,775
2022 - 2026	4,455,000	665,315	0	0	4,455,000	665,315
2027	1,005,000	20,602	0	0	1,005,000	20,602
Total	\$ 11,090,000	\$ 4,093,000	\$ 354,989	\$ 910,011	\$ 11,444,989	\$ 5,003,011

Norwalk City School District
Huron County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

NOTE 15 - JOINTLY GOVERNED ORGANIZATIONS

A. Bay Area Council of Governments (BACG)

The BACG is a jointly governed organization. Members of the BACG consist of twenty-six districts representing seven counties (Ottawa, Sandusky, Seneca, Erie, Huron, Wood and Crawford). The BACG was formed for the purpose of purchasing goods and services at a lower cost. The item currently being purchased through the council of governments is natural gas. The only cost to the School District is an administrative charge if they participate in purchasing through the BACG. The BACG consists of the superintendent of each district. The Board of Directors of the BACG consists of one elected representative from each county, the superintendent of the fiscal agent and two non-voting members (administrator and fiscal agent.)

Members of the Board serve two year terms that are staggered. Financial information can be obtained by contacting Betty Schwiefert, who serves as fiscal agent, at 2900 South Columbus Avenue, Sandusky, Ohio 44870.

B. Northern Ohio Educational Computer Association (NOECA)

NOECA is a jointly governed organization among 41 districts, formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to the administrative and instructional functions among member districts. Each of the governments of these schools supports NOECA based upon a per pupil charge dependent upon the software package utilized. In the event of dissolution of the organization, all current members will share in net obligations or asset liquidation's in a ratio proportionate to their last twelve months' financial contributions. NOECA is governed by a Board of Directors consisting of superintendents of the member districts. The degree of control exercised by any participating district is limited to its representation on the Board. In accordance with GASB Statement No. 14, the School District does not have an equity interest in NOECA because the residual interest in the net resources of a joint venture upon dissolution is not equivalent to an equity interest. Financial information can be obtained by contacting NOECA at 2900 South Columbus Avenue, Sandusky, Ohio 44870. The School District paid \$8,376 to NOECA during fiscal year 2011.

NOTE 16 – RELATED ORGANIZATION

Norwalk Public Library

The School District is not involved in budgeting or management of the Norwalk Public Library facilities, nor does it subsidize or finance the operation of the library. The selection of directors and budget approval is conducted merely to comply with state code requirements.

Norwalk City School District
Huron County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

NOTE 17 – CONTINGENCIES

A. Grants

The School District received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the 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, 2011.

B. Litigation

The School District is party to legal proceedings. The School District is of the opinion that ultimate disposition of claims will not have a material effect, if any, on the financial condition of the School District.

NOTE 18 – INTERFUND ACTIVITY

Interfund Balances

Interfund balances at June 30, 2011 consisted of the following:

	Interfund Receivable	Interfund Payable
General Fund	\$ 6,537	\$ 0
Other Governmental Funds	0	6,537
	\$ 6,537	\$ 6,537

Interfund receivables and payables resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, or (3) payments between funds are made. As of June 30, 2011, all interfund payables outstanding are anticipated to be repaid in fiscal year 2012.

Norwalk City School District
Huron County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

NOTE 19 - SET-ASIDES

Substitute House Bill 412, as amended, required the School District to “set aside” certain percentages of defined revenues for (1) textbook and instructional materials purchases, and (2) capital improvement and maintenance expenditures. As of April 10, 2001, any money on hand in a School District’s budget reserve set-aside account may at the discretion of the Board be returned to the School District’s general fund or may be left in the account and used by the Board to offset any budget deficit the School District may experience in future years. The amendment places special conditions on any refunds or rebates from the Bureau of Workers’ Compensation. These monies are to be used to offset a budget deficit for school facility construction, renovation or repair, for the textbooks or instructional materials; for purchase of school buses; or for teachers’ professional development. It also required five year budget projections, amended the fiscal watch and fiscal emergency statutes, created a school district solvency fund, and amended “spending reserve” provisions. During the fiscal year ended June 30, 2011, the reserve activity (cash basis) was as follows:

	Budget Reserve	Capital Improvement Reserve	Textbooks/ Instructional Materials Reserve
Set-Aside Cash Balance as of June 30, 2010	\$ 642,743	\$ 480,239	\$ 1,380,123
Current Year Set-Aside Requirement	0	449,469	449,469
Contributions in Excess of the Current Fiscal Year			
Set-aside Requirement	0	0	0
Current Year Qualifying Expenditures	0	(398,484)	(75,397)
Excess Qualified Expenditures from Prior Years	0	0	0
Current Year Offsets	0	0	0
Waiver Granted by the Department of Education	0	0	0
Prior Year Offset from Bond Proceeds	0	0	0
Total	\$ 642,743	\$ 531,224	\$ 1,754,195
Amount to Restrict			\$ 2,285,419
Unassigned			\$ 642,743

The School District may use any negative amount in the textbooks set-aside to reduce set-aside requirements of future fiscal years. Amounts remaining at the fiscal year-end are represented by a restricted fund balance presented on the balance sheet and restricted net assets on the statement of net assets. Effective July 1, 2011, the textbook set-aside laws have been repealed.

Norwalk City School District
Huron County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

NOTE 20 – FUND BALANCE

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

The constraints placed on fund balance for the major governmental funds and all other funds are presented as follows:

	General	Bond Retirement	Other Governmental Funds	Total
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Restricted for:				
Debt Service	\$ 0	\$ 1,477,992	\$ 0	\$ 1,477,992
Capital Outlay	531,224	0	1,377,426	1,908,650
Textbook Set-aside	1,754,195	0	0	1,754,195
Other Purposes	0	0	298,109	298,109
Total Restricted	<u>2,285,419</u>	<u>1,477,992</u>	<u>1,675,535</u>	<u>5,438,946</u>
Assigned for:				
Encumbrances	<u>230,015</u>	<u>0</u>	<u>0</u>	<u>230,015</u>
Unassigned	<u>6,400,579</u>	<u>0</u>	<u>(196,602)</u>	<u>6,203,977</u>
Total Fund Balance	<u><u>\$ 8,916,013</u></u>	<u><u>\$ 1,477,992</u></u>	<u><u>\$ 1,478,933</u></u>	<u><u>\$ 11,872,938</u></u>

January 25, 2012

The Board of Education
Norwalk City School District
134 Benedict Avenue
Norwalk, OH 44857

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 the governmental activities, each major fund, and the aggregate remaining fund information of the Norwalk City School District (the School District) as of and for the year ended June 30, 2011, which collectively comprise the School District's basic financial statements and have issued our report thereon dated January 25, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, 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 above.

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
Page 2

However, we identified a certain deficiency in internal control over financial reporting, described in the accompanying *Schedule of Findings and Questioned Costs* that we consider to be a significant deficiency in internal control over financial reporting as item 2011-001. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the School District in a separate letter dated January 25, 2012.

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

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

Rea & Associates, Inc.

January 25, 2012

The Board of Education
Norwalk City School District
134 Benedict Avenue
Norwalk, OH 44857

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH
REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT
ON EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB CIRCULAR A-133**

Compliance

We have audited the compliance of Norwalk City School District (the School District) with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133, *Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011. The School District's major federal programs are identified in the summary of auditor's results section of the accompanying *Schedule of Findings and Questioned Costs*. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the School District's management. Our responsibility is to express an opinion on the School 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 School 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 School District's compliance with those requirements.

As described in items 2011-002 and 2011-003 in the accompanying *Schedule of Findings and Questioned Costs*, the School District did not comply with requirements regarding Cash Management and Period of Availability that are applicable to its major federal programs as identified the *Schedule of Findings and Questioned Costs*. Compliance with such requirements is necessary, in our opinion, for the School District to comply with requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, the School District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011.

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

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Internal Control over Compliance

Management of the School 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 School 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 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 School District's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined below.

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 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.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance described in the accompanying *Schedule of Findings and Questioned Costs* as item 2011-004"cpf"4233/225 to be a significant deficiency.

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

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

Rea & Associates, Inc.

Norwalk City School District
Huron County, Ohio
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2011

Federal Grantor/Pass Through Grantor/ Program Title	CFDA Number	Grant Year	Federal Receipts	Federal Disbursements
U. S. Department of Education				
(Passed through the Ohio Department of Education):				
Adult Basic Literacy Education	84.002	2010	\$ 15,574	\$ 17,288
Adult Basic Literacy Education	84.002	2011	<u>75,708</u>	<u>80,726</u>
Total Adult Basic Literacy Education			91,282	98,014
Title I Cluster:				
Title I Grants to LEAs	84.010	2009		255
Title I Grants to LEAs	84.010	2010	113,167	132,013
Title I Grants to LEAs	84.010	2011	525,473	507,289
ARRA - Title I Grants to LEAs	84.389	2010	95,025	115,796
ARRA - Title I Grants to LEAs	84.389	2011	<u>42,856</u>	<u>42,856</u>
Total Title I Cluster			776,521	798,209
Special Education Cluster:				
Special Education - Grants to States	84.027	2010	126,024	161,897
Special Education - Grants to States	84.027	2011	583,726	557,159
ARRA - Special Education - Grants to States	84.391	2010	148,170	186,229
ARRA - Special Education - Grants to States	84.391	2011	<u>187,623</u>	<u>187,623</u>
Total Special Education - Grants to States			1,045,543	1,092,908
Special Education - Preschool Grants	84.173	2010	3,725	4,980
Special Education - Preschool Grants	84.173	2011	24,414	23,318
ARRA - Special Education - Preschool Grants	84.392	2010	<u>8,126</u>	<u>9,184</u>
Total Special Education - Preschool Grants			36,265	37,482
Total Special Education Cluster			1,081,808	1,130,390
Title IV-A - Safe and Drug-Free Schools	84.186	2010	0	280
Title IV-A - Safe and Drug-Free Schools	84.186	2011	<u>574</u>	<u>0</u>
Total Title IV-A - Safe and Drug-Free Schools			574	280
Title II-D - Technology	84.318	2010	1,387	14
Title II-D - Technology	84.318	2011	<u>1,923</u>	<u>1,923</u>
Total Title II-D - Technology			3,310	1,937
Title II-A - Improving Teacher Quality	84.367	2010	28,011	34,759
Title II-A - Improving Teacher Quality	84.367	2011	<u>96,347</u>	<u>90,980</u>
Total Title II-A - Improving Teacher Quality			124,358	125,739
ARRA - State Fiscal Stabilization Fund	84.394	2010	0	20,375
ARRA - State Fiscal Stabilization Fund	84.394	2011	<u>923,039</u>	<u>923,039</u>
			923,039	943,414
Total U.S. Department of Education			<u>3,000,892</u>	<u>3,097,983</u>
U. S. Department of Agriculture				
(Passed Through Ohio Department of Education):				
Fresh Fruit and Vegetable Program	10.582	2011	2,019	2,019
Child Nutrition Cluster:				
Non-Cash Assistance:				
National School Lunch Program	10.555	2011	69,178	69,178
Cash Assistance:				
School Breakfast Program	10.553	2011	81,259	81,259
National School Lunch Program	10.555	2011	<u>588,356</u>	<u>588,356</u>
Cash Assistance Subtotal			669,615	669,615
Total Child Nutrition Cluster			738,793	738,793
Total U.S. Department of Agriculture			<u>740,812</u>	<u>740,812</u>
Total Federal Assistance			<u>\$ 3,741,704</u>	<u>\$ 3,838,795</u>

Norwalk City School District
Huron County, Ohio
Notes to the Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2011

Note A – Significant Accounting Policies

The accompanying schedule of expenditures of federal awards is a summary of the activity of the School District's federal award programs. 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).

Note D - Transfers

The School District generally must spend Federal assistance within 15 months of receipt (funds must be obligated by June 30 and spent by September 30). However, with Ohio Department of Education's (ODE) approval, a district can transfer unspent Federal assistance to the succeeding year, thus allowing the School District a total of 27 months to spend the assistance. During fiscal year 2011, ODE authorized the following transfers from grant 2010 to 2011:

<u>CFDA</u>	<u>Program Description</u>	<u>Amount</u>
84.002	ABLE Instructional	\$5,599
84.010	Title I	14,620
84.027	IDEA-B	35,653
84.186	Title IV-A	1,005
84.367	Title II-A	5,800
84.389	ARRA-Title I	45,856
84.391	ARRA – IDEA-B	187,623

Norwalk City School District
Huron County, Ohio
Schedule of Findings and Questioned Costs
OMB Circular A-133, Section .505
June 30, 2011

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)?	Yes
(d) (1) (iii)	Was there any reported material non-compliance at the financial statement level (GAGAS)?	No
(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?	Yes
(d) (1) (v)	Type of Major Programs' Compliance Opinion	Qualified – Special Education Cluster & Title I Cluster Unqualified – State Fiscal Stabilization & Child Nutrition Cluster
(d) (1) (vi)	Are there any reportable findings under Section .510?	Yes
(d) (1) (vii)	Major Programs (list): Child Nutrition Cluster Special Education Cluster Title I Cluster State Fiscal Stabilization Fund	CFDA #10.553, 10555 #84.027, 84.173, 84.391, 84.392 #84.010, 84.389 #84.394
(d) (1) (viii)	Dollar Threshold: Type A/B Programs	Type A: > \$300,000 Type B: All others
(d) (1) (ix)	Low Risk Auditee?	No

Norwalk City School District
Huron County, Ohio
Schedule of Findings and Questioned Costs
OMB Circular A-133, Section .505
June 30, 2011
(Continued)

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

Finding Number: 2011-001

Significant Deficiency – Reconciliation Process

Criteria: The American Institute of Certified Public Accountants (AICPA), the national professional organization for certified public accountants, issued its Statement on Auditing Standards (SAS) No. 115, Communicating Internal Control Related Matters Identified in an Audit, which supersedes SAS No. 112. The AICPA establishes auditing standards generally accepted in the United States that certified public accountants and government auditors must follow in conducting audits of state and local governments. SAS No. 115 establishes standards, responsibilities and guidance for auditors during a financial statement audit engagement for identifying and evaluating a client’s internal control over financial reporting. This new standard requires the audit to report in writing to management and the governing body any control deficiencies found during the audit that are considered significant deficiencies and/or material weaknesses. To this end, SAS No. 115 lists specific control deficiencies that should be regarded as at least a significant deficiency.

Condition: The treasurer’s department uses a worksheet that tracks all transactions for the month. During month-end procedures, this worksheet is utilized to perform the bank reconciliation. This worksheet typically traces to the bank balances after consideration of outstanding checks and deposits in transit; however, this worksheet does not always agree to the balances recorded in the accounting system, which frequently results in a discrepancy that is adjusted in the receipt ledger of the accounting system. When the cash balance per the worksheet is less than the accounting ledger balance, a negative receipt entry is posted to the accounting system and vice versa when cash balance is exceeding accounting ledger as a positive receipt is recorded for the difference.

Cause: The practice of posting adjusting entries when variances are noted indicates that not all transactions are being recorded in the accounting system in a timely manner.

Effect: A necessary step in the internal control over financial reporting is to prove both the balance of the bank and the balance of cash as reported in the accounting records. Failure to resolve un-reconciled differences hinders the detection of errors or irregularities. In addition, posting adjusting entries to resolve these variances and not reversing these adjustments in the subsequent month(s) when the reconciling item is identified or “self-correcting” results in understated or overstated general fund revenue and potentially understated or overstated revenue in other funds if the transaction or reconciling item should have been charged to a fund other than the general fund.

Recommendation: We recommend that the School District take all steps necessary to identify the sources of the adjustments made each month to ensure precise reconciliation of bank balances with book balances and any subsidiary ledgers used, such as the aforementioned worksheet.

School District’s Response: The School District will implement procedures to identify all transactions and ensure accurate reconciliation.

Norwalk City School District
Huron County, Ohio
Schedule of Findings and Questioned Costs
OMB Circular A-133, Section .505
June 30, 2011
(Continued)

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS
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Finding Number: 2011-002

Program Information:

Federal Programs: Title I, IDEA-B,
CFDA Numbers: 84.010, 84.027
Federal Agency: U.S. Department of Education
Pass Through Entity: Ohio Department of Education

Significant Deficiency - Noncompliance – Cash Management

Criteria: 34 CFR 80.20 (b)(7) states in part: “When advances are made by letter-of-credit or electronic transfer of funds methods, the grantee must make drawdowns as close as possible to the time of making disbursements.” The Ohio Department of Education (“ODE”) subsequently stated local educational agencies must have an internal control system in place to ensure payments are spent timely (i.e., within 30 days).

Condition: The School District received an automatic IDEA-B payment in August 2010 and requested additional money in September and did not spend it within the 30 days prescribed above. The accumulated balances for these two months were \$51,184 and \$31,038. In total, for fiscal year 2011, total IDEA-B expenditures of \$579,873 exceeded the total receipts of \$548,074. For Title I, an automatic payment was also received in August 2010 and then additional drawdowns made at a rate faster than the School District was spending the funds resulting in accumulated balances on a monthly basis. The School District received five Title I drawdowns between July 30, 2010, and April 14, 2011, that were not spent within 30 days for an average balance of \$38,653 over this time period. Although, the Title I fund began reporting deficits after the April 2011 drawdown, the negative balances are not permitted to offset the positive balances accumulated throughout the fiscal year.

Cause: Controls were not in place to minimize the time elapsed between making drawdowns and making disbursements.

Effect: The level of these balances provided the School District the opportunity to earn interest on these funds. It was noted that the account these funds were maintained are non-interest bearing; however, the internal controls were not in place to expend these in a timely fashion, which the ODE defines as 30 days. Interest must be remitted to the U.S. Department of Education through ODE. ODE will review the calculation and determine if the amount remitted is correct. Under 34 CFR 80.21, an entity may retain up to \$100 in interest for administrative expenses. During the fiscal year ended June 30, 2011, an amount due to ODE is calculated at \$682.

Recommendation: Failure to timely expend federal funds and to monitor interest earnings could result in a reduction, loss, or return of federal funds. We recommend the School District monitor available cash fund balances to ensure advances and drawdowns are spent timely.

School District’s Response: The School District will implement procedures to spend drawdowns within 30 days of receipt.

Norwalk City School District
Huron County, Ohio
Schedule of Findings and Questioned Costs
OMB Circular A-133, Section .505
June 30, 2011
(Continued)

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS
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Finding Number: 2011-003

Program Information:

Federal Programs: Title I

CFDA Number: 84.010

Federal Agency: U.S. Department of Education

Pass Through Entity: Ohio Department of Education

Questioned Cost – Significant Deficiency - Noncompliance – Period of Availability

Criteria: A-102 Common rule. Where a funding period is specified, a nonfederal entity may charge to the award only costs resulting from obligations incurred during the funding period and pre-award costs authorized by the federal awarding agency. Obligations mean the amount of orders placed, contracts and subgrants awarded, goods and services received, and similar transactions during a given period that will require payment by the non-federal entity during the same or a future period.

Condition: The funding period end date for the program year 2011 title I grant was June 30, 2011. The School District has charged expenditures for obligations made in fiscal year 2011 to the grant year 2010 program. In addition, Title I expenditures incurred in fiscal year 2012 have been charged to the 2011 grant year.

Cause: Title I expenditures are not 1) being ordered and incurred before the funding period expires, 2) scrutinized by the program director authorizing the expense to determine which grant year the expenditure applies, or 3) being recorded to the appropriate special cost center that correlates with the grant year.

Effect: As a result, the District is consistently incurring costs outside of the period of availability for both grant years 2010 and 2011 resulting in actual and projected questioned costs as follows:

	<u>Actual</u>	<u>Projected</u>
Incurring in 2011, charged to grant 2010	\$17,712	\$36,254
Incurring in 2012, charged to grant 2011	8,207	17,263

Recommendation: Costs incurred after the funding period shall not be charged to the grant program. We recommend that the program directors closely monitor federal grant expenditures, especially those occurring between the funding period of June 30, 2011, and the liquidation period, September 30, 2011, to ensure the proper grant year is being charged.

School District's Response: The School District will not expend funds from the grant program that are not within the grant program funding year.

Norwalk City School District
Huron County, Ohio
Schedule of Prior Audit Findings
For the Fiscal Year Ended June 30, 2011

Finding Number	Finding Summary	Fully Corrected?	Corrected, Significantly Different Corrective Action Taken or Finding No Longer Valid Explain
2010-001	Internal Controls over Financial Reporting	Yes	
2010-002	Inaccurate Federal Reporting	Yes	



Dave Yost • Auditor of State

NORWALK CITY SCHOOL DISTRICT

HURON 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
JUNE 14, 2012**