

# Norwalk City School District

## Huron County, Ohio

### *Audited Financial Statements*

For the Fiscal Year Ended  
June 30, 2013





# 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, 2012 through June 30, 2013. 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

December 13, 2013



**Norwalk City School District**  
**Huron County, Ohio**  
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*June 30, 2013*

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November 21, 2013

To Board of Education and Management  
Norwalk City School District  
Huron County, Ohio  
134 Benedict Avenue  
Norwalk, OH 44857

## **Independent Auditor's Report**

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

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, Huron County, Ohio, (the School District) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements as listed in the table of contents.

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

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### ***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, 2013, and the respective changes in financial position and the respective budgetary comparison for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matters***

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the *management's discussion and analysis* on pages 5-12 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### ***Other Information***

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 *schedule of expenditures of federal awards*, as required by *Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations* is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The *schedule of expenditures of federal awards* is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the *schedule of expenditures of federal awards* is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated November 21, 2013, on our consideration of the School District's internal control over financial reporting and on 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School District's internal control over financial reporting and compliance.

*Hea & Associates, Inc.*

Medina, Ohio

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**Norwalk City School District**  
**Huron County, Ohio**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2013*

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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, 2013. 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 2013 are as follows:

- Net position decreased \$2,506,568, which represents an 11.5 percent decrease from 2012.
- Capital assets decreased \$504,621 during fiscal year 2013.
- During the year, outstanding debt decreased from \$11,384,426 to \$10,867,334 due to principal payments made by the School District.

***Using this Annual Report***

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 whole entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities.

The *Statement of Net Position and Statement of Activities* provide information about the activities of the whole 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 the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the School District's most significant funds with all other nonmajor funds presented in total in one column. In the case of the School District, the general fund and bond retirement fund are by far the most significant funds.

***Reporting the School District as a Whole***

*Statement of Net Position and the Statement of Activities*

While the basic financial statements contain the large number of funds used by the School District to provide programs and activities, the view of the School District as a whole looks at all financial transactions and asks the question, "How did we do financially during fiscal year 2013?" The *Statement of Net Position* and the *Statement of Activities* answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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These two statements report the School District's net position and changes in net position. This change in net position is important because it tells the reader that, for the School District as a whole, the financial position of the School District has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include the School District's property tax base, current property tax laws in Ohio which restrict revenue growth, facility conditions, required educational programs, and other factors.

In the *Statement of Net Position* and the *Statement of Activities*, Governmental Activities include the School District's programs and services, including instruction, support services, extracurricular activities, and non-instructional services, i.e., food service operations.

***Reporting the School District's Most Significant Funds***

***Fund Financial Statements***

The major funds financial statements begin on page 15. Fund financial reports provide detailed information about the School District's major funds. The School District uses many funds to account for a multitude of financial transactions; however, these fund financial statements focus on the School District's most significant funds. The School District's major governmental funds are the general fund and 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 you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds is reconciled in the financial statements.

***Reporting the School District's Fiduciary Responsibilities***

The School District is the trustee, or fiduciary, for some of its scholarship programs. This activity is presented as a private purpose trust fund. The School District also acts in a trustee capacity as an agent for individuals, private organizations, other governmental units and/or other funds. These activities are reported in agency funds. The School District's fiduciary activities are reported in separate Statements of Fiduciary Net Position and Changes in Fiduciary Net Position on pages 20 and 21. These activities are excluded from the School District's other financial statements because the assets cannot be utilized by the School District to finance its operations.

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**Huron County, Ohio**  
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**The School District as a Whole**

Recall that the Statement of Net Position provides the perspective of the School District as a whole. Table 1 provides a summary of the School District's net position for 2013 compared to 2012:

**Table 1**  
**Net Position**

	Governmental Activities	
	2013	2012
<b>Assets</b>		
Current and Other Assets	\$ 18,216,451	\$ 20,940,009
Capital Assets	23,177,617	23,682,238
<i>Total Assets</i>	41,394,068	44,622,247
<b>Liabilities</b>		
Other Liabilities	8,939,210	9,111,676
Long-Term Liabilities	13,235,186	13,784,331
<i>Total Liabilities</i>	22,174,396	22,896,007
<b>Net Position</b>		
Net Investment in Capital Assets	12,932,626	12,827,248
Restricted	4,068,425	4,288,958
Unrestricted	2,218,621	4,610,034
<i>Total Net Position</i>	\$ 19,219,672	\$ 21,726,240

At year end, capital assets represented 56 percent of total assets. Capital assets include land, land improvements, buildings and improvements, furniture and equipment, and vehicles. Net investment in capital assets was \$12,932,626 at June 30, 2013. These capital assets are used to provide services to students and are not available for future spending. Although the School District's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

There was a decrease in current assets due to a decrease in cash balance as operating expenditures exceeded receipts.

A portion of the School District's net position, \$4,068,425 or 21 percent, represents resources that are subject to external restrictions on how they may be used. The balance of government-wide unrestricted net position of \$2,218,621 may be used to meet the government's ongoing obligations to students and creditors.

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Table 2 shows the changes in net position for fiscal year 2013 and 2012.

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

	Governmental Activities	
	2013	2012
<b>Revenues</b>		
<i>Program Revenues:</i>		
Charges for Services	\$ 1,819,308	\$ 1,688,735
Operating Grants	3,056,204	3,138,079
Capital Grants	99,140	175,580
<i>Total Program Revenues</i>	<u>4,974,652</u>	<u>5,002,394</u>
<i>General Revenues:</i>		
Property Taxes	7,354,491	7,282,831
Income Taxes	1,878,015	1,788,511
Grants and Entitlements Not Restricted	12,664,156	12,969,574
Other	136,948	168,256
<i>Total General Revenues</i>	<u>22,033,610</u>	<u>22,209,172</u>
<i>Total Revenues</i>	<u>27,008,262</u>	<u>27,211,566</u>
<b>Program Expenses</b>		
Instruction:		
Regular	11,486,555	12,138,191
Special	3,449,829	3,323,406
Vocational	236,397	91,695
Adult/Continuing	49,842	46,741
Student Intervention Services	3,665	0
Other	1,926,155	1,527,712
Support Services:		
Pupils	1,116,575	1,119,596
Instructional Staff	1,986,333	1,893,500
Board of Education	285,933	70,877
Administration	1,891,011	1,942,158
Fiscal	577,055	571,335
Business	164,847	157,022
Operation and Maintenance of Plant	2,602,903	2,529,669
Pupil Transportation	732,759	817,118
Central	64,104	91,581
Operation of Non-Instructional Services:		
Food Service Operations	1,148,483	1,109,570
Community Services	546,204	522,335
Extracurricular Activities	731,017	717,452
Debt Service:		
Interest and Fiscal Charges	515,163	529,693
<i>Total Expenses</i>	<u>29,514,830</u>	<u>29,199,651</u>
<i>Increase (Decrease) in Net Position</i>	(2,506,568)	(1,988,085)
<i>Net Position at Beginning of Year</i>	<u>21,726,240</u>	<u>23,714,325</u>
<i>Net Position at End of Year</i>	<u>\$ 19,219,672</u>	<u>\$ 21,726,240</u>

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The School District saw a \$651,636 decrease in regular instruction expense. This is primarily a reduction in salaries and benefits due to a reduction-in-force effective for the 2012-2013 school year. There was a \$398,443 increase in other instruction expense due in part to an increase in open enrollments payments made to other districts and the North Central Ohio, Jefferson County and Lorain County Educational Service Centers.

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

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

	Total Cost of Service		Net Cost of Service	
	2013	2012	2013	2012
Instruction:				
Regular	\$ 11,486,555	\$ 12,138,191	\$ 10,147,771	\$ 10,829,750
Special	3,449,829	3,323,406	2,186,720	2,058,045
Vocational	236,397	91,695	196,207	57,303
Adult/Continuing	49,842	46,741	16,942	20,290
Student Intervention Services	3,665	0	3,665	0
Other	1,926,155	1,527,712	1,926,155	1,527,712
Support Services:				
Pupils	1,116,575	1,119,596	1,053,983	988,579
Instructional Staff	1,986,333	1,893,500	1,763,676	1,689,311
Board of Education	285,933	70,877	285,933	70,877
Administration	1,891,011	1,942,158	1,883,464	1,937,090
Fiscal	577,055	571,335	577,055	571,335
Business	164,847	157,022	164,847	157,022
Operation and Maintenance of Plant	2,602,903	2,529,669	2,602,424	2,525,395
Pupil Transportation	732,759	817,118	725,845	810,429
Central	64,104	91,581	63,422	64,838
Operation of Non-Instructional Services:				
Food Service Operations	1,148,483	1,109,570	120,695	96,547
Community Services	546,204	522,335	71,832	26,242
Extracurricular Activities	731,017	717,452	234,379	236,799
Debt Service:				
Interest and Fiscal Charges	515,163	529,693	515,163	529,693
<i>Total Expenses</i>	<b>\$ 29,514,830</b>	<b>\$ 29,199,651</b>	<b>\$ 24,540,178</b>	<b>\$ 24,197,257</b>

The dependence upon general revenues for governmental activities is apparent. Over 83 percent of governmental activities are supported through taxes and other general revenues; such revenues are 82 percent of total governmental revenues. The community, as a whole, is by far the primary support for the School District students.

**Norwalk City School District**  
**Huron County, Ohio**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2013*

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***Governmental Funds***

Information about the School District's major funds starts on page 15. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$27,096,253 and expenditures of \$29,454,881 for the fiscal year.

The general fund's net change in fund balance for fiscal year 2013 was a decrease of \$2,271,637. The decrease in fund balance was primarily caused by deficit spending.

The fund balance of the bond retirement fund increased \$11,239. This increase in fund balance can be attributed to taxes and intergovernmental revenues being sufficient to cover debt service requirements.

***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.

During the course of fiscal year 2013, the School District did amend its general fund budget a few times. The School District uses site-based budgeting and budgeting systems are designed to tightly control total site budgets but provide flexibility for site management.

For the general fund, actual budget basis revenue was \$21,676,039, which was higher than the final budget basis revenue by \$544,206. Most of this difference is due to an underestimation of tuition and tax revenue.

Final appropriations of \$26,823,332 were \$2,387,826 higher than the actual expenditures of \$24,435,506 as cost savings were recognized for regular and special instruction and operation and maintenance of plant throughout the year.

Final appropriations of \$26,823,832 were \$662,082 higher than original appropriations of \$26,161,250 as budgeted expenditures for instruction were increased throughout the year.

**Norwalk City School District**  
**Huron County, Ohio**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2013*

***Capital Assets and Debt Administration***

**Capital Assets**

At the end of fiscal year 2013, the School District had \$23,177,617 invested in capital assets. Table 4 shows fiscal year 2013 balances compared with 2012.

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

	Governmental Activities	
	2013	2012
Land	\$ 2,178,532	\$ 2,211,532
Land Improvements	1,031,398	977,551
Buildings and Improvements	18,401,752	18,990,544
Furniture and Equipment	1,224,066	1,168,378
Vehicles	341,869	334,233
<i>Totals</i>	\$ 23,177,617	\$ 23,682,238

The \$504,621 decrease in capital assets was attributable to depreciation and disposals exceeding additional purchases. See Note 8 for more information about the capital assets of the School District.

**Debt**

At June 30, 2013, the School District had \$10,867,334 in debt outstanding. See Note 13 for additional details. Table 5 summarizes bonds outstanding.

**Table 5**  
**Outstanding Debt at Year End**

	Governmental Activities	
	2013	2012
<i>General Obligation Bonds</i>		
1999 High School Bonds		
Serial Bonds	\$ 1,285,000	\$ 1,820,000
2006 Capital Improvement (Refunding)		
Serial Bonds	8,605,000	8,680,000
Capital Appreciation Bonds	354,989	354,989
Accretion on Capital Appreciation Bonds	516,495	416,027
Unamortized Bond Premiums	317,907	340,614
Loss on Refunding	(212,057)	(227,204)
<i>Total</i>	\$ 10,867,334	\$ 11,384,426

**Norwalk City School District**  
**Huron County, Ohio**  
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***Current Issues***

Beginning with fiscal year 2009, the School District's cash basis 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 \$1.441 million. The deficit amount for fiscal year 2011 was \$1.017 million; \$1.874 million for 2012; and \$2.174 million for 2013. The projected deficit amount for fiscal year 2014 is \$1.848 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.

In February 2013, Governor John Kasich unveiled a new school funding system which became HB59. After extensive modifications by the House and Senate, the legislature passed the new biennial budget effective for fiscal years 2014 and 2015. Based on the new school funding formula, the Norwalk City Schools will receive an additional \$372,002 in FY2014 and \$1.7 million in FY2015 over the FY2013 funding level through state foundation payments.

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, 2013, and 2014 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.

The Board of Education voted to place a 1.25% replacement school district income tax levy on the November 2013 election ballot. On November 5, 2013, that replacement levy was defeated by Norwalk voters 1,873 to 1,422. The Board will be studying and implementing additional budget reductions to produce a balanced budget. With two failed emergency operating levies and a failed replacement school district earned income levy, there are currently no plans to go back to the voters in the immediate future.

Kenneth W. France, the School District's Treasurer/CFO since October 2000, will retire December 31, 2013.

***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 show the School District's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Kenneth W. France, Treasurer of Norwalk City School District, 134 Benedict Avenue, Norwalk, OH 44857 or francek@norwalk-city.k12.oh.us.

**Norwalk City School District**  
**Huron County, Ohio**  
*Statement of Net Position*  
*June 30, 2013*

	Governmental Activities
<b>Assets</b>	
Equity in Pooled Cash and Investments	\$ 9,042,932
Receivables:	
Accounts	81,219
Intergovernmental	516,863
Income Taxes	773,516
Property Taxes	7,696,073
Deferred Charges	105,848
Nondepreciable Capital Assets	2,178,532
Depreciable Capital Assets (Net)	20,999,085
<i>Total Assets</i>	41,394,068
<b>Liabilities</b>	
Accounts Payable	164,367
Accrued Wages and Benefits	1,953,207
Intergovernmental Payable	566,756
Accrued Interest Payable	33,631
Deferred Revenue	6,221,249
Long Term Liabilities:	
Due Within One Year	980,082
Due In More Than One Year	12,255,104
<i>Total Liabilities</i>	22,174,396
<b>Net Position</b>	
Net Investment in Capital Assets	12,932,626
Restricted For:	
Capital Outlay	1,423,319
Debt Service	1,625,820
Set Asides	717,700
Other Purposes	301,586
Unrestricted	2,218,621
<i>Total Net Position</i>	\$ 19,219,672

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, 2013

	Program Revenues				Net (Expense) Revenue and Changes in Net Position
	Expenses	Charges for Services and Sales	Operating Grants, Contributions and Interest	Capital Grants and Contributions	Governmental Activities
<b>Governmental Activities</b>					
Instruction:					
Regular	\$ 11,486,555	\$ 1,220,191	\$ 118,593	\$ 0	\$ (10,147,771)
Special	3,449,829	0	1,263,109	0	(2,186,720)
Vocational	236,397	0	40,190	0	(196,207)
Adult/Continuing	49,842	0	32,900	0	(16,942)
Student Intervention Services	3,665	0	0	0	(3,665)
Other	1,926,155	0	0	0	(1,926,155)
Support Services:					
Pupils	1,116,575	0	62,592	0	(1,053,983)
Instructional Staff	1,986,333	0	222,657	0	(1,763,676)
Board of Education	285,933	0	0	0	(285,933)
Administration	1,891,011	0	7,547	0	(1,883,464)
Fiscal	577,055	0	0	0	(577,055)
Business	164,847	0	0	0	(164,847)
Operation and Maintenance of Plant	2,602,903	0	479	0	(2,602,424)
Pupil Transportation	732,759	6,914	0	0	(725,845)
Central	64,104	0	682	0	(63,422)
Extracurricular Activities	731,017	320,832	76,666	99,140	(234,379)
Operation of Non-Instructional Services:					
Food Service Operations	1,148,483	271,371	756,417	0	(120,695)
Community Services	546,204	0	474,372	0	(71,832)
Debt Service:					
Interest and Fiscal Charges	515,163	0	0	0	(515,163)
<b>Total</b>	<b>\$ 29,514,830</b>	<b>\$ 1,819,308</b>	<b>\$ 3,056,204</b>	<b>\$ 99,140</b>	<b>(24,540,178)</b>

**General Revenues**

Property Taxes Levied for:	
General Purposes	6,030,593
Debt Service	928,728
Capital Outlay	395,170
Income Taxes Levied for:	
General Purposes	1,878,015
Grants and Entitlements Not Restricted to Specific Programs	12,664,156
Investment Earnings	17,992
Miscellaneous	118,956
<b>Total General Revenues</b>	<b>22,033,610</b>
<b>Change in Net Position</b>	<b>(2,506,568)</b>
<b>Net Position Beginning of Year</b>	<b>21,726,240</b>
<b>Net Position End of Year</b>	<b>\$ 19,219,672</b>

See accompanying notes to the basic financial statements.

**Norwalk City School District**  
**Huron County, Ohio**  
*Balance Sheet*  
*Governmental Funds*  
*June 30, 2013*

	General	Bond Retirement	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>				
Equity in Pooled Cash and Investments	\$ 5,209,335	\$ 1,475,433	\$ 1,640,464	\$ 8,325,232
Restricted Cash and Investments	717,700	0	0	717,700
Receivables:				
Accounts	81,219	0	0	81,219
Interfund	175,566	0	0	175,566
Intergovernmental	40,536	0	476,327	516,863
Income Taxes	773,516	0	0	773,516
Property Taxes	6,319,919	952,164	423,990	7,696,073
<i>Total Assets</i>	<u>\$ 13,317,791</u>	<u>\$ 2,427,597</u>	<u>\$ 2,540,781</u>	<u>\$ 18,286,169</u>
<b>Liabilities and Fund Balances</b>				
<b>Liabilities</b>				
Accounts Payable	\$ 111,115	\$ 0	\$ 53,252	\$ 164,367
Accrued Wages and Benefits	1,780,472	0	172,735	1,953,207
Intergovernmental Payable	525,888	0	40,868	566,756
Interfund Payable	0	0	175,566	175,566
Deferred Revenue	5,637,895	828,163	547,635	7,013,693
<i>Total Liabilities</i>	<u>8,055,370</u>	<u>828,163</u>	<u>990,056</u>	<u>9,873,589</u>
<b>Fund Balances</b>				
Nonspendable	9,346	0	0	9,346
Restricted	717,700	1,599,434	1,670,002	3,987,136
Committed	10,947	0	0	10,947
Assigned	4,518,417	0	0	4,518,417
Unassigned	6,011	0	(119,277)	(113,266)
<i>Total Fund Balances</i>	<u>5,262,421</u>	<u>1,599,434</u>	<u>1,550,725</u>	<u>8,412,580</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$ 13,317,791</u>	<u>\$ 2,427,597</u>	<u>\$ 2,540,781</u>	<u>\$ 18,286,169</u>

See accompanying notes to the basic financial statements.

**Norwalk City School District**  
**Huron County, Ohio**  
*Reconciliation of Total Governmental Fund Balances to*  
*Net Position of Governmental Activities*  
*June 30, 2013*

<b>Total Governmental Fund Balances</b>		\$ 8,412,580
 <i>Amounts reported for governmental activities in the statement of net position are different because:</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		23,177,617
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		
Property Taxes	\$ 481,011	
Income Taxes	134,207	
Intergovernmental	<u>177,226</u>	
Total		792,444
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.		105,848
In the statement of activities, interest is accrued on outstanding bonds, whereas in the governmental funds, an interest expenditure is not reported.		(33,631)
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	(9,890,000)	
Capital Appreciation Bonds	(354,989)	
Bond Premium	(317,907)	
Refunding Loss	212,057	
Accretion of Interest - Capital Appreciation Bonds	(516,495)	
Compensated Absences	<u>(2,367,852)</u>	
Total		<u>(13,235,186)</u>
<i>Net Position of Governmental Activities</i>		<u><u>\$ 19,219,672</u></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, 2013*

	General	Bond Retirement	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>				
Property and Other Local Taxes	\$ 5,974,588	\$ 923,747	\$ 390,705	\$ 7,289,040
Income Taxes	1,878,015	0	0	1,878,015
Intergovernmental	12,517,183	139,180	3,228,250	15,884,613
Investment Income	17,992	0	760	18,752
Tuition and Fees	1,174,426	0	0	1,174,426
Extracurricular	121,195	0	199,638	320,833
Rentals	37,322	0	0	37,322
Charges for Services	15,357	0	271,372	286,729
Contributions and Donations	400	0	86,666	87,066
Miscellaneous	115,957	0	3,500	119,457
<i>Total Revenues</i>	<u>21,852,435</u>	<u>1,062,927</u>	<u>4,180,891</u>	<u>27,096,253</u>
<b>Expenditures</b>				
Current:				
Instruction:				
Regular	10,529,149	0	226,640	10,755,789
Special	2,020,509	0	1,424,730	3,445,239
Vocational	197,268	0	0	197,268
Adult/Continuing	18,033	0	31,809	49,842
Student Intervention Services	3,665	0	0	3,665
Other	1,926,155	0	0	1,926,155
Support Services:				
Pupils	1,064,905	0	35,679	1,100,584
Instructional Staff	1,854,144	0	221,554	2,075,698
Board of Education	260,892	0	0	260,892
Administration	1,880,901	0	2,577	1,883,478
Fiscal	540,506	24,768	10,144	575,418
Business	62,402	0	0	62,402
Operation and Maintenance of Plant	2,368,820	0	15,472	2,384,292
Pupil Transportation	748,965	0	0	748,965
Central	63,488	0	616	64,104
Extracurricular Activities	464,677	0	250,527	715,204
Operation of Non-Instructional Services:				
Food Service Operations	0	0	1,117,127	1,117,127
Community Services	43,783	0	502,286	546,069
Capital Outlay	75,810	0	439,960	515,770
Debt Service:				
Principal Retirement	0	610,000	0	610,000
Interest and Fiscal Charges	0	416,920	0	416,920
<i>Total Expenditures</i>	<u>24,124,072</u>	<u>1,051,688</u>	<u>4,279,121</u>	<u>29,454,881</u>
<i>Net Change in Fund Balance</i>	(2,271,637)	11,239	(98,230)	(2,358,628)
<i>Fund Balances Beginning of Year</i>	<u>7,534,058</u>	<u>1,588,195</u>	<u>1,648,955</u>	<u>10,771,208</u>
<i>Fund Balances End of Year</i>	<u>\$ 5,262,421</u>	<u>\$ 1,599,434</u>	<u>\$ 1,550,725</u>	<u>\$ 8,412,580</u>

See accompanying notes to the basic financial statements.

**Norwalk City School District**  
**Huron County, Ohio**  
*Reconciliation of the Statement of Revenues, Expenditures and Changes*  
*in Fund Balances of Governmental Funds to the Statement of Activities*  
*For the Fiscal Year Ended June 30, 2013*

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**Net Change in Fund Balances - Total Governmental Funds** \$ (2,358,628)

*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	\$ 797,347	
Current Year Depreciation	<u>(1,268,968)</u>	(471,621)

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

(33,000)

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

Property Taxes	65,451	
Intergovernmental	<u>(252,580)</u>	(187,129)

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

610,000

In the statement of activities, interest is accrued on outstanding bonds, and bond premium and bond issuance costs and the gain/loss on refunding are amortized over the term of the bonds, whereas in governmental funds, an interest expenditure is reported when bonds are issued.

Accrued Interest Payable	2,225	
Amortization of Issuance Costs	(7,560)	
Amortization of Premium on Bonds	22,707	
Amortization of Refunding Loss	<u>(15,147)</u>	2,225

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

Compensated Absences		32,053
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Accretion on capital appreciation bonds is an expenditure in the governmental funds, but is allocated as an expense over the life of the bonds.

(100,468)

*Change in Net Position of Governmental Activities*

\$ (2,506,568)

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, 2013*

	Budgeted Amounts			Variance with Final Budget Over (Under)
	Original	Final	Actual	
<b>Revenues</b>				
Property and Other Local Taxes	\$ 5,858,607	\$ 5,858,607	\$ 5,997,260	\$ 138,653
Income Taxes	1,687,796	1,687,796	1,851,524	163,728
Intergovernmental	12,413,542	12,413,542	12,477,948	64,406
Investment Income	25,000	25,000	31,905	6,905
Tuition and Fees	944,638	944,638	1,174,976	230,338
Extracurricular Activities	55,000	55,000	53,465	(1,535)
Rentals	45,000	45,000	37,322	(7,678)
Charges for Services	10,000	10,000	29,155	19,155
Contributions and Donations	0	0	400	400
Miscellaneous	92,250	92,250	22,084	(70,166)
<i>Total Revenues</i>	<u>21,131,833</u>	<u>21,131,833</u>	<u>21,676,039</u>	<u>544,206</u>
<b>Expenditures</b>				
Current:				
Instruction:				
Regular	11,162,289	11,444,781	10,425,961	1,018,820
Special	2,289,100	2,347,032	2,138,098	208,934
Vocational	193,956	198,865	181,162	17,703
Adult/Continuing	19,095	19,578	17,835	1,743
Other	2,062,670	2,114,872	1,926,605	188,267
Support Services:				
Pupils	1,131,410	1,160,044	1,056,776	103,268
Instructional Staff	2,057,900	2,109,980	1,922,149	187,831
Board of Education	297,128	304,648	277,528	27,120
Administration	2,010,889	2,061,780	1,878,239	183,541
Fiscal	577,483	592,098	539,389	52,709
Business	73,234	75,087	68,403	6,684
Operation and Maintenance of Plant	2,732,818	2,801,980	2,552,546	249,434
Pupil Transportation	887,556	910,018	829,008	81,010
Central	69,728	71,492	65,128	6,364
Extracurricular Activities	499,197	511,830	466,267	45,563
Operation of Non-Instructional Services:				
Community Services	15,633	16,029	14,602	1,427
Capital Outlay	81,164	83,218	75,810	7,408
<i>Total Expenditures</i>	<u>26,161,250</u>	<u>26,823,332</u>	<u>24,435,506</u>	<u>2,387,826</u>
<i>Net Change in Fund Balance</i>	(5,029,417)	(5,691,499)	(2,759,467)	2,932,032
<i>Fund Balance Beginning of Year</i>	7,396,950	7,396,950	7,396,950	0
Prior Year Encumbrances Appropriated	840,847	840,847	840,847	0
<i>Fund Balance End of Year</i>	<u>\$ 3,208,380</u>	<u>\$ 2,546,298</u>	<u>\$ 5,478,330</u>	<u>\$ 2,932,032</u>

See accompanying notes to the basic financial statements.

**Norwalk City School District**  
**Huron County, Ohio**  
*Statement of Fiduciary Net Position*  
*Fiduciary Funds*  
*June 30, 2013*

	Private Purpose Trust	Agency
<b>Assets</b>		
Equity in Pooled Cash and Investments	\$ 229,109	\$ 57,672
<b>Liabilities</b>		
Undistributed Monies	0	21,445
Due to Students	0	36,227
<i>Total Liabilities</i>	0	\$ 57,672
<b>Net Position</b>		
Held in Trust for Scholarships	\$ 229,109	

See accompanying notes to the basic financial statements.

**Norwalk City School District**  
**Huron County, Ohio**  
*Statement of Changes in Fiduciary Net Position*  
*Private Purpose Trust Fund*  
*For the Fiscal Year Ended June 30, 2013*

	Private Purpose Trust
<b>Additions</b>	
Gifts and Contributions	\$ 142,775
Investment Earnings	189
	142,964
<i>Total Additions</i>	<i>142,964</i>
<b>Deductions</b>	
Payments in Accordance with Trust Agreements	11,450
	131,514
<i>Change in Net Position</i>	<i>131,514</i>
<i>Net Position Beginning of Year</i>	<i>97,595</i>
<i>Net Position End of Year</i>	<i>\$ 229,109</i>

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, 2013*

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**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.

***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 9 and 14 to the basic financial statements. The Norwalk Public Library, a related organization, is presented in Note 15.

*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, 2013*

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**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 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 position 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 position 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 position 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. Non-major 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, 2013*

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**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 position and changes in net position. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds, and agency funds. Trust funds are used to account for assets held by the 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 position. The statement of activities presents increases (i.e., revenues) and decreases (i.e., expenditures) in total net position.

**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, 2013*

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***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.

Non-exchange 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 6). 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 non-exchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at 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, 2013, but which were levied to finance fiscal year 2014 operations, have been recorded as deferred revenue on the balance sheet. This amount is reported as deferred revenue on the statement of net position, 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, 2013*

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***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 2013.

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 2013, investments were limited to marketable securities, 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, 2013*

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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, 2013. 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 2013 amounted to \$17,992, which includes \$5,456 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 capital improvements. See Note 18 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 position 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:

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

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***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 position.

***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 are recognized as a liability on the fund financial statements when due.

***L. Net Position***

Net position represents the difference between assets and liabilities. Net investment in capital assets, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through constitutional provisions or enabling legislation or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Net position restricted for other purposes primarily include extracurricular and state and federal programs.

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

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***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. The Board of Education has by resolution authorized the Treasurer to assign fund balance. The Board of Education may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year’s appropriated budget.

*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.

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***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 2013.

***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 Policies***

For the fiscal year ended June 30, 2013, the School District has implemented Governmental Accounting Standard Board (GASB) Statement No. 60, "Accounting and Financial Reporting for Service Concession Arrangements," GASB Statement No. 61, "The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34," GASB Statement No. 62, "Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements," and GASB Statement No. 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position."

GASB Statement No. 60 improves financial reporting by addressing issues related to service concession arrangements (SCAs), which are a type of public-private or public-public partnership. The implementation of GASB Statement No. 60 did not have an effect on the financial statements of the School District.

GASB Statement No. 61 improves guidance for including, presenting and disclosing information about component units and equity interest transactions of a financial reporting entity. The implementation of GASB Statement No. 61 did not have an effect on the financial statements of the School District.

GASB Statement No. 62 incorporated into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements. The implementation of GASB Statement No. 62 did not have an effect on the financial statements of the School District.

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GASB Statement No. 63 provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. It also amends the net asset reporting requirements in GASB Statement No. 34 by incorporating deferred outflows and inflows into the definitions and renaming the residual measure as net position, rather than net assets.

**NOTE 3 - ACCOUNTABILITY**

Fund balances at June 30, 2013 included the following individual fund deficits:

	<u>Deficit Fund Balance</u>
Nonmajor Governmental Funds:	
Food Service	\$ 57,423
Public Preschool	1,122
IDEA Part B	54,047
IDEA Preschool Grant	2,931
Improving Teacher Quality	3,754

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.

**NOTE 4 – 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).

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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	\$ (2,271,637)
Net Adjustment for Revenue Accruals	(82,160)
Net Adjustment for Expenditure Accruals	168,679
Funds Budgeted Elsewhere **	(20,376)
Adjustment for Encumbrances	(553,973)
 Budget Basis	 \$ (2,759,467)

\*\* 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, faculty funds, uniform school supplies fund and unclaimed monies.

**NOTE 5 – DEPOSITS AND INVESTMENTS**

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

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

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

Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by 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;

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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;
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) and STAR Plus;
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 \$1,236 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.

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**Deposits:** The carrying value of the School District's deposits totaled \$2,476,343 and the bank balances of the deposits totaled \$2,759,912. \$1,249,506 of the bank balance was covered by federal depository insurance and \$1,510,406 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.

**Investments**

Investments are reported at fair value. As of June 30, 2013, the School District had the following investments:

Standard & Poor's Rating		Fair Value	Investment Maturities (in months)		% Investments
			0 - 12	24 - 48	
AAAm	STAROhio	\$ 853,107	\$ 853,107	\$ 0	12.4%
AA+	Federal Home Loan Mortgage Corporation	1,499,156	0	1,499,156	21.9%
AA+	Federal Home Loan Bank	1,998,107	0	1,998,107	29.2%
AA+	Federal National Mortgage Association	2,501,764	0	2,501,764	36.5%
Totals		\$ 6,852,134	\$ 853,107	\$ 5,999,027	100.0%

**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 credit ratings of the School District's investments are listed above. STAROhio is an investment pool operated by the Ohio State Treasurer. It is unclassified since it is not evidenced by securities that exist in physical or book entry form. Ohio law requires STAROhio maintain the highest rating provided by at least one nationally recognized standard rating service. The weighted average of maturity of the portfolio held by STAROhio as of June 30, 2013, is 58 days. 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 Corporation, and STAROhio, as listed above.

**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.

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**NOTE 6 – 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 and public utility property located in the School District. Real property tax revenue received in calendar year 2013 represents collections of calendar year 2012 taxes. Real property taxes received in calendar year 2013 were levied after April 1, 2012, on the assessed value listed as of January 1, 2012, 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 2013 represents collections of calendar year 2012 taxes. Public utility real and tangible personal property taxes received in calendar year 2013 became a lien December 31, 2011, were levied after April 1, 2012 and are collected in 2013 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.

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

The School District receives property taxes from Huron County. The County Auditor periodically advances to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2013, are available to finance fiscal year 2013 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 and public utility property taxes which are measurable as of June 30, 2013, 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.

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The amount available as an advance at June 30, 2013 was \$816,231 in the general fund, \$124,001 in the bond retirement debt service fund, and \$53,581 in the permanent improvement capital projects fund. The amount available for advance at June 30, 2012 was \$838,903 in the general fund, \$136,171 in the bond retirement fund and \$53,118 in the permanent improvement capital projects fund.

On an accrual basis, collectible delinquent property taxes have been recorded as a receivable and revenue, while on a modified accrual basis the revenue has been deferred.

The assessed values upon which the fiscal year 2013 taxes were collected are:

	2012 Second Half Collections		2013 First Half Collections	
	Valuation	%	Valuation	%
Real Estate	\$ 325,770,370	97.10%	\$ 300,550,030	96.65%
Public Utility Personal Property	9,736,040	2.90%	10,418,480	3.35%
<b>Total Assessed Valuation</b>	<b>\$ 335,506,410</b>	<b>100.00%</b>	<b>\$ 310,968,510</b>	<b>100.00%</b>
Tax rate per \$1,000 of assessed valuation	\$ 43.95		\$ 43.95	

***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 7 - RECEIVABLES**

Receivables at June 30, 2013, 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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**NOTE 8 – CAPITAL ASSETS**

Capital asset activity for the fiscal year ended June 30, 2013, was as follows:

	Balance 6/30/2012	Additions	Reductions	Balance 6/30/2013
<b>Governmental Activities</b>				
<i>Capital Assets, not being depreciated:</i>				
Land	\$ 2,211,532	\$ 0	\$ (33,000)	\$ 2,178,532
<i>Capital Assets, being depreciated:</i>				
Land Improvements	2,222,117	132,782	0	2,354,899
Buildings and Improvements	32,391,458	267,700	0	32,659,158
Furniture and Equipment	3,339,673	306,486	0	3,646,159
Vehicles	1,563,004	90,379	0	1,653,383
<i>Total Capital Assets, being depreciated</i>	<u>39,516,252</u>	<u>797,347</u>	<u>0</u>	<u>40,313,599</u>
<i>Less Accumulated Depreciation:</i>				
Land Improvements	(1,244,566)	(78,935)	0	(1,323,501)
Buildings and Improvements	(13,400,914)	(856,492)	0	(14,257,406)
Furniture and Equipment	(2,171,295)	(250,798)	0	(2,422,093)
Vehicles	(1,228,771)	(82,743)	0	(1,311,514)
<i>Total Accumulated Depreciation</i>	<u>(18,045,546)</u>	<u>(1,268,968)</u>	<u>0</u>	<u>(19,314,514)</u>
<i>Total Capital Assets being depreciated, net</i>	<u>21,470,706</u>	<u>(471,621)</u>	<u>0</u>	<u>20,999,085</u>
<i>Governmental Activities Capital Assets, Net</i>	<u>\$ 23,682,238</u>	<u>\$ (471,621)</u>	<u>\$ (33,000)</u>	<u>\$ 23,177,617</u>

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$ 822,499
Special	1,240
Support Services:	
Instructional Staff	117,227
Board of Education	25,041
Fiscal	413
Business	102,445
Operation and Maintenance of Plant	72,999
Pupil Transportaion	70,384
Operation of Non-Instructional Services:	
Food Service Operations	28,724
Community Service	7,138
Extracurricular Activities	20,858
<b>Total Depreciation</b>	<u>\$ 1,268,968</u>

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**NOTE 9 – 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.

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 10 – 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.

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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 13).

**NOTE 11 – 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 defined benefit pension plan. SERS provides retirement, disability and survivor benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by state statute per Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report can be obtained by contacting SERS, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling toll free (800) 878-5853. It is also posted on SERS' website at [www.ohsers.org](http://www.ohsers.org) under Employers/Audit Resources.

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 2013, 13.05 percent and .05 percent of annual covered salary was the portion used to fund pension obligations and death benefits, respectively. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to statutory maximum amount 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 required contributions for pension obligations and death benefits to SERS for the fiscal years ended June 30, 2013, 2012 and 2011 were \$468,406, \$437,518 and \$399,470, respectively; 61 percent has been contributed for fiscal year 2013 and 100 percent for the fiscal years 2012 and 2011.

***B. State Teachers Retirement System***

Plan Description - The School District participates in the State Teachers Retirement System of Ohio ("STRS Ohio"), a cost-sharing, multiple-employer public employee retirement plan. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a publicly-available, stand-alone financial report that 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](http://www.strsoh.org).

**Norwalk City School District**  
**Huron County, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2013*

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New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB Plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on a member's lifetime contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. 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. The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. 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.

Funding Policy - For fiscal year 2013, 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. 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. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School District's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2013, 2012 and 2011 were \$1,669,328, \$1,633,810 and \$1,588,780, respectively; 84 percent has been contributed for fiscal year 2013 and 100 percent for the fiscal years 2012 and 2011. Contributions to the DC and Combined Plans for fiscal year 2013 were \$23,713 made by the School District and \$16,938 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, 2013, certain members of the Board of Education have elected social security. The Board's liability is 6.2 percent of wages paid.

**Norwalk City School District**  
**Huron County, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2013*

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**NOTE 12 – POSTEMPLOYMENT BENEFITS**

***A. School Employees Retirement System***

Plan Description – The School District participates in two cost-sharing, multiple employer defined benefit OPEB plans administered by the School Employees Retirement System for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's, Medicare Advantage and traditional indemnity plans. A prescription drug plan is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Ohio Revised Code Section 3309.69. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B monthly premium for calendar year 2013 was \$104.90 for most participants, but could be as high as \$335.70 per month depending on their income. SERS' reimbursement to retirees was \$45.50. 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](http://www.ohsers.org) under Employers/Audit Resources.

Funding Policy - 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 allocates 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 105(e). For 2013, .16 percent of covered payroll was allocated to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statutes provide that no employer shall pay a health care surcharge greater than 2.0 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the statewide SERS-covered payroll for the health care surcharge. For fiscal year 2013, the actuarially determined amount was \$20,525.

Active members do not contribute to the postemployment benefit plans. The SERS Retirement Board establishes the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. 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 (including surcharge) for the fiscal years ended June 30, 2013, 2012, and 2011 were \$52,017, \$18,948, and \$48,369, respectively; 61 percent has been contributed for fiscal year 2013 and 100 percent for fiscal years 2012 and 2011.

**Norwalk City School District**  
**Huron County, Ohio**  
*Notes to the Basic Financial Statements*  
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The Retirement Board, acting with advice of the actuary, allocates a portion of the current employer contribution to the Medicare B Fund. For fiscal year 2013, the actuarially required allocation was 0.74 percent of covered payroll. The School District's contributions for Medicare Part B for the fiscal years ended June 30, 2013, 2012, and 2011 were \$24,759, \$25,838, and \$25,707, respectively; 61 percent has been contributed for fiscal year 2013 and 100 percent for fiscal years 2012 and 2011.

**B. State Teachers Retirement System**

**Plan Description** - The School District contributes to the cost sharing, multiple-employer defined benefit Health Plan (the "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 financial report of STRS. Interested parties can view the most recent Comprehensive Annual Financial Report by visiting [www.strsoh.org](http://www.strsoh.org) or by requesting a copy by calling toll-free (888) 227-7877.

**Funding Policy** - Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2013, 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 the fiscal years ended June 30, 2013, 2012, and 2011 were \$119,238, \$125,678, and \$122,214, respectively; 84 percent has been contributed for fiscal year 2013 and 100 percent for fiscal years 2012 and 2011.

**NOTE 13 - LONG - TERM OBLIGATIONS**

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

	Outstanding 6/30/2012	Additions	Reductions	Outstanding 6/30/2013	Amounts Due in One Year
<b>Governmental Activities:</b>					
General Obligation Bonds:					
1999 High School Serial Bonds \$6,369,891 at 3.0% - 4.7%	\$ 1,820,000	\$ 0	\$ 535,000	\$ 1,285,000	\$ 560,000
2006 Refunding Bonds					
Serial Bonds \$9,145,000 at 3.5% - 4.1%	8,680,000	0	75,000	8,605,000	80,000
Capital Appreciation Bonds	354,989	0	0	354,989	0
Accretion of Interest	416,027	100,468	0	516,495	0
Bond Premium	340,614	0	22,707	317,907	0
Loss on Refunding	(227,204)	0	(15,147)	(212,057)	0
<b>Total General Obligation Bonds</b>	<b>11,384,426</b>	<b>100,468</b>	<b>617,560</b>	<b>10,867,334</b>	<b>640,000</b>
Compensated Absences	2,399,905	134,285	166,338	2,367,852	340,082
<i>Total Governmental Activities</i> <i>Long-Term Liabilities</i>	<u>\$ 13,784,331</u>	<u>\$ 234,753</u>	<u>\$ 783,898</u>	<u>\$ 13,235,186</u>	<u>\$ 980,082</u>

**Norwalk City School District**  
**Huron County, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2013*

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*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 position. 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.

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 bond retirement fund. Compensated absences will be paid from the general and food service funds.

**Norwalk City School District**  
**Huron County, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2013*

Principal and interest requirements to retire general obligation bonds outstanding at June 30, 2013 are as follows:

Fiscal Year Ending June 30,	Serial Bonds		Capital Appreciation Bonds		Total	
	Principal	Interest	Principal	Accretion	Principal	Accretion/ Interest
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	0	337,986	187,051	517,949	187,051	855,935
2018	705,000	323,886	0	0	705,000	323,886
2019 - 2023	2,280,000	794,954	0	0	2,280,000	794,954
2024 - 2027	5,460,000	685,917	0	0	5,460,000	685,917
Total	<u>\$ 9,890,000</u>	<u>\$3,233,167</u>	<u>\$ 354,989</u>	<u>\$ 910,011</u>	<u>\$10,244,989</u>	<u>\$ 4,143,178</u>

**NOTE 14 - 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.

**Norwalk City School District**  
**Huron County, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2013*

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***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 \$11,206 to NOECA during fiscal year 2013.

**NOTE 15 – 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.

**NOTE 16 – CONTINGENCIES AND SIGNIFICANT COMMITMENTS**

***A. Grants***

The School District received financial assistance from federal and State agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, the effect of any such disallowed claims on the overall financial position of the School District at June 30, 2013, if applicable, cannot be determined at this time.

***B. Litigation***

The School District is not party to any claims or lawsuits that would, in the School District's opinion, have a material effect of the basic financial statements.

***C. Encumbrance Commitments***

Outstanding encumbrances for governmental funds include \$448,039 for the general fund and \$133,335 in nonmajor governmental funds.

**Norwalk City School District**  
**Huron County, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2013*

**NOTE 17 – INTERFUND BALANCES**

Interfund balances at June 30, 2013 consisted of the following:

Funds	Interfund Receivable	Interfund Payable
General Fund	\$ 175,566	\$ 0
Other Governmental Funds	0	175,566
	\$ 175,566	\$ 175,566

The primary purpose of the interfund balances is to cover costs in specific funds where revenues were not received by June 30. These interfund balances will be repaid once the anticipated revenues are received. All interfund balances are expected to be repaid within one year.

Interfund balances between governmental funds are eliminated on the government-wide financial statements; therefore, no internal balances at June 30, 2013 are reported on the Statement of Net Position.

**NOTE 18 - SET-ASIDES**

Substitute House Bill 412, as amended, required the School District to “set aside” certain percentages of defined revenues for 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. During the fiscal year ended June 30, 2013, the reserve activity (cash basis) was as follows:

	Budget Stabilization	Capital Improvement	Totals
Set Aside Balance as of June 30, 2012	\$ 642,743	\$ 627,994	\$ 1,270,737
Current Year Set-Aside Requirement	0	505,188	505,188
Current Year Qualifying Expenditures	0	(415,482)	(415,482)
Total	\$ 642,743	\$ 717,700	\$ 1,360,443
Balance Carried Forward to FY 2014	\$ 642,743	\$ 717,700	\$ 1,360,443
Set Aside Restricted Balance June 30, 2013			\$ 717,700

Amounts remaining at the fiscal year-end are represented by a restricted fund balance presented on the balance sheet and restricted net position on the statement of net position.

**Norwalk City School District**  
**Huron County, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2013*

**NOTE 19 – FUND BALANCE**

Fund balance can be classified as non-spendable, 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
Nonspendable for:				
Unclaimed Funds	\$ 9,346	\$ 0	\$ 0	\$ 9,346
Restricted for:				
Debt Service	0	1,599,434	0	1,599,434
Capital Outlay	0	0	1,397,385	1,397,385
Set Asides	717,700	0	0	717,700
Extracurricular Activities	0	0	157,917	157,917
Local Grants	0	0	60,248	60,248
State Programs	0	0	1,194	1,194
Federal Programs	0	0	53,258	53,258
Total Restricted	<u>717,700</u>	<u>1,599,434</u>	<u>1,670,002</u>	<u>3,987,136</u>
Committed for:				
Wellness Fund	10,947	0	0	10,947
Assigned for:				
Encumbrances:				
Instruction	132,521	0	0	132,521
Support Services	313,023	0	0	313,023
Food Service Operation	318	0	0	318
Extracurricular Activities	2,177	0	0	2,177
Subsequent Year Appropriations	4,070,378	0	0	4,070,378
Total Assigned	<u>4,518,417</u>	<u>0</u>	<u>0</u>	<u>4,518,417</u>
Unassigned	<u>6,011</u>	<u>0</u>	<u>(119,277)</u>	<u>(113,266)</u>
<i>Total Fund Balance (Deficit)</i>	<u>\$ 5,262,421</u>	<u>\$ 1,599,434</u>	<u>\$ 1,550,725</u>	<u>\$ 8,412,580</u>

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November 21, 2013

To Board of Education and Management  
Norwalk City School District  
Huron County, Ohio  
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, in accordance with the 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, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Norwalk City School District, Huron County, Ohio (the School District) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements, and have issued our report thereon dated November 21, 2013.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the School District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School District's internal control. Accordingly, we do not express an opinion on the effectiveness of the School District's internal control.

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 a 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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the School District's financial statements are free from 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*.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Hea & Associates, Inc.*

Medina, Ohio

November 21, 2013

To Board of Education and Management  
Norwalk City School District  
Huron County, Ohio  
134 Benedict Avenue  
Norwalk, OH 44857

**Independent Auditor's Report on Compliance for Each Major Federal Program and  
Report on Internal Control over Compliance Required by OMB Circular A-133**

**Report on Compliance for Each Major Federal Program**

We have audited Norwalk City School District's, Huron County, Ohio, (the School District) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the School District's major federal programs for the year ended June 30, 2013. 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*.

***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of the School District's major federal programs based on our audit of the types of compliance requirements referred to above. 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 on compliance for each major federal program. However, our audit does not provide a legal determination of the School District's compliance.

***Opinion on Each Major Federal Program***

In our opinion, the School District complied, in all material respects, with the types of 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, 2013.

***Other Matters***

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying *schedule of findings and questioned costs* as item 2013-001. Our opinion on each major federal program is not modified with respect to this matter.

The School District's response to the noncompliance finding identified in our audit is described in the accompanying *schedule of findings and questioned costs*. The School District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

**Report on Internal Control over Compliance**

Management of the School District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the School District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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.

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

Norwalk City School District  
Report on Compliance for Each Major Federal Program and  
Report on Internal Control over Compliance  
Required by OMB Circular A-133  
Page 3 of 3

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified a certain deficiency in internal control over compliance, as described in the accompanying *schedule of findings and questioned costs* as item 2013-001 that we consider to be a significant deficiency.

The School District's response to the internal control over compliance finding identified in our audit is described in the accompanying *schedule of findings and questioned costs*. The School District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

*Rea & Associates, Inc.*  
Medina, Ohio

**Norwalk City School District**  
**Huron County, Ohio**  
*Schedule of Expenditures of Federal Awards*  
*For the Fiscal Year Ended June 30, 2013*

Federal Grantor/Pass Through Grantor/ Program Title	CFDA Number	Grant Year	Federal Receipts	Federal Disbursements
<b>U. S. Department of Education</b>				
<b>(Passed through the Ohio Department of Education):</b>				
Adult Basic Literacy Education	84.002	2012	\$ 46,795	\$ 13,122
Adult Basic Literacy Education	84.002	2013	72,621	76,860
Total Adult Basic Literacy Education			119,416	89,982
Title I Grants to LEAs	84.010	2012	212,323	215,412
Title I Grants to LEAs	84.010	2013	459,811	563,031
Total Title I Grants to LEAs			672,134	778,443
Special Education Cluster:				
Special Education - Grants to States	84.027	2012	255,160	260,510
Special Education - Grants to States	84.027	2013	525,188	594,800
Total Special Education - Grants to States			780,348	855,310
Special Education - Preschool Grants	84.173	2012	6,426	6,333
Special Education - Preschool Grants	84.173	2013	26,104	26,508
Total Special Education - Preschool Grants			32,530	32,841
Total Special Education Cluster			812,878	888,151
Title II-D - Technology	84.318	2012	5,386	5,386
Title III - English Language Acquisition	84.365	2012	15,092	10,274
Title III - English Language Acquisition	84.365	2013	2,654	1,469
Total Title III - English Language Acquisition			17,746	11,743
Title II-A - Improving Teacher Quality	84.367	2011	0	601
Title II-A - Improving Teacher Quality	84.367	2012	53,402	55,991
Title II-A - Improving Teacher Quality	84.367	2013	83,340	84,966
Total Title II-A - Improving Teacher Quality			136,742	141,558
ARRA - Race to the Top	84.395	2012	700	700
Education Jobs Fund Program	84.410	2012	194,443	162,571
Total U.S. Department of Education			1,959,445	2,078,534
<b>U. S. Department of Agriculture</b>				
<b>(Passed Through Ohio Department of Education):</b>				
Child Nutrition Cluster:				
Non-Cash Assistance:				
National School Lunch Program	10.555	2013	67,913	67,913
Cash Assistance:				
School Breakfast Program	10.553	2013	99,650	99,650
National School Lunch Program	10.555	2013	644,636	644,636
Cash Assistance Subtotal			744,286	744,286
Total Child Nutrition Cluster			812,199	812,199
State Administrative Expenses for Child Nutrition	10.560	2013	10,314	0
Total U.S. Department of Agriculture			822,513	812,199
Total Federal Assistance			\$ 2,781,958	\$ 2,890,733

**Norwalk City School District**  
**Huron County, Ohio**  
*Notes to the Schedule of Expenditures of Federal Awards*  
*For the Fiscal Year Ended June 30, 2013*

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**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).

**Norwalk City School District**  
**Huron County, Ohio**  
*Schedule of Findings and Questioned Costs*  
*OMB Circular A-133, Section .505*  
*June 30, 2013*

<b>1. SUMMARY OF AUDITOR'S RESULTS</b>
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(d) (1) (i)	Type of Financial Statement Opinion	Unmodified
(d) (1) (ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d) (1) (ii)	Were there any other significant deficiency conditions reported at the financial statement level (GAGAS)?	No
(d) (1) (iii)	Was there any reported material non-compliance at the financial statement level (GAGAS)?	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	Unmodified
(d) (1) (vi)	Are there any reportable findings under Section .510?	Yes
(d) (1) (vii)	Major Programs (list): Title I Special Education Cluster	CFDA #84.010 #84.027, 84.173
(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, 2013*  
*(Continued)*

<b>2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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None noted

<b>3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS</b>
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**Finding Number:** 2013-001

**Federal Programs:** Title I and Special Education Cluster  
**CFDA Numbers:** 84.010; 84.027 and 84.173  
**Federal Award Number/Year:** 2013  
**Federal Agency:** United States Department of Education  
**Pass-Through Agency:** Ohio Department of Education

**Significant Deficiency - Noncompliance – Activities Allowed or Unallowed- Time and Effort Requirements**

**Criteria:** OMB Circular A-87, Attachment B, paragraphs 8.h.(3), (4), (5), and (6) states an employee expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semiannually and will be signed by the employee or supervisory official having firsthand knowledge of the work performed by the employee. An employee who works on multiple activities or cost objectives, must maintain time and effort distribution records documenting the portion of time and effort dedicated to the single cost objective and each program or other cost objective supported by nonconsolidated Federal funds or other revenue sources.

**Condition:** During our review, we noted one employee paid from Title I, for which time and effort documentation was not maintained and one employee paid from Special Education – Grants to States, for which semi-annual certifications were not maintained for fiscal year 2013.

**Cause:** The District did not have sufficient controls in place to identify which employees work on single or multiple cost objectives in order to appropriately determine if a semi-annual certification or a time and effort log was required. In addition, controls were deficient to track completion of these certifications by applicable employees.

**Effect:** Failure to maintain the required documentation resulted in known questioned costs of \$39,732 for Special Education Cluster and \$5,040 for Title I. Projected questioned costs for Title I exceed \$10,000.

**Recommendation:** We recommend the District maintain time and effort documentation (or certifications semi-annually where allowed) for applicable employees and ensure costs charged to each federal program are allowable. If knowledge of grant requirements is not sufficient to comply, we recommend additional training and consultation with District’s oversight agency, Ohio Department of Education, to ensure compliance with federal requirements.

**Management’s Response:** The Norwalk City School District has implemented procedures to ensure semi-annual certifications and time and effort logs are prepared and maintained to prevent future occurrences.

**Norwalk City School District**  
**Huron County, Ohio**  
*Schedule of Prior Audit Findings*  
*For the Fiscal Year Ended June 30, 2013*

<b>Finding Number</b>	<b>Finding Summary</b>	<b>Fully Corrected?</b>	<b>Corrected, Significantly Different Corrective Action Taken or Finding No Longer Valid Explain</b>
2012-001	Internal Controls over Bank Reconciliations	Yes	

November 21, 2013

To the Board of Education and Management  
Norwalk City School District  
Huron County, Ohio  
134 Benedict Avenue  
Norwalk, Ohio 44857

### **Independent Accountant's Report on Applying Agreed-Upon Procedure**

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

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

1. We noted the Board amended its anti-harassment policy at its meeting on October 23, 2012, to include prohibiting harassment, intimidation, or bullying of any student "on a school bus" or by an "electronic act."

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

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

*Rea & Associates, Inc.*

Medina, Ohio

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# 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  
DECEMBER 26, 2013**