
**Northwestern Local School District
Clark County, Ohio**

Basic Financial Statements

June 30, 2011

with Independent Auditors' Report



Dave Yost • Auditor of State

Board of Education
Northwestern Local School District
5610 Troy Road
Springfield, Ohio 45502

We have reviewed the *Independent Auditors' Report* of the Northwestern Local School District, Clark County, prepared by Clark, Schaefer, Hackett & Co., for the audit period July 1, 2010 through June 30, 2011. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Northwestern Local 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

February 6, 2012

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Independent Auditors' Report

Board of Education
Northwestern Local School District
5610 Troy Road
Springfield, Ohio 45502

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the District, as of June 30, 2011, and the respective changes in financial position, and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 20, during the year ended June 30, 2011, the District adopted the provisions of Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 20, 2011, on our consideration of the 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* and should be considered in assessing the results of our audit.

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The management's discussion and analysis on pages 3 through 12, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

Clark, Schaefer, Hackett & Co.

Springfield, Ohio
December 20, 2011

Northwestern Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2011
Unaudited

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

Financial Highlights

Key financial highlights for 2011 are as follows:

Net assets, excluding amounts invested in capital assets net related of debt, were \$25.33 million. Of this amount, \$20.66 million is restricted for the School District's capital outlay use.

General revenues accounted for \$38.32 million in revenue or 87.95 percent of all revenues. Program specific revenues in the form of charges for services, grants and contributions accounted for \$4.25 million or 9.75 percent of total revenues. Revenue related to capital grants accounted for \$1.00 million or 2.30 percent of total revenue of \$43.57 million.

Assets increased by \$26.65 million including increases in cash and cash equivalents of \$2.65 million, restricted assets of \$2.27 million, intergovernmental receivables of \$19.16 million, and income and property taxes receivable of \$0.94 million.

The School District had \$18.77 million in expenses related to governmental activities; only \$5.25 million of these expenses were offset by program specific charges for services, grants or contributions. General revenues of \$38.32 million were adequate to provide for net expenses of these programs.

The General Fund had \$15.62 million in revenues and \$14.69 million in expenditures. The General Fund's balance at the close of the current year was 22.69 percent of the current year's expenditures.

The School District issued \$14.63 million in debt during the fiscal year. Of this amount \$13.24 million was Build America Bonds used to refinance short term notes and \$1.39 million long term Qualified School Construction Bonds for energy conservation.

Overview of the Financial Statements

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

Northwestern Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2011
Unaudited

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

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

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

Both of the government-wide financial statements distinguish functions of the School District that are principally supported by taxes and intergovernmental revenues (*governmental activities*). The government-wide financial statements can be found on pages 13 - 14 of this report.

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

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

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

Northwestern Local School District
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 For the Fiscal Year Ended June 30, 2011
 Unaudited

balances provide a reconciliation to facilitate this comparison between the governmental activities statement of net assets and statement of activities.

The School District maintains nineteen individual governmental funds. Information is presented separately in the governmental fund balance sheet and the statement of fund revenues, expenditures and changes in fund balance for the General Fund, Debt Service Fund and Classroom Facilities Fund which are considered major funds. Data from the other seventeen governmental funds are combined into a single, aggregate presentation.

The School District adopts an annual appropriation budget for all of its governmental funds. Budgetary comparison statements have been provided for the General Fund to demonstrate compliance with this budget. The basic governmental fund financial statements can be found on pages 15 - 17 of this report.

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

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

Government-Wide Financial Analysis

Recall that the Statement of Net Assets provides the perspective of the School District as a whole. Table 1 provides a comparison of the School District's net assets for 2010 to 2011.

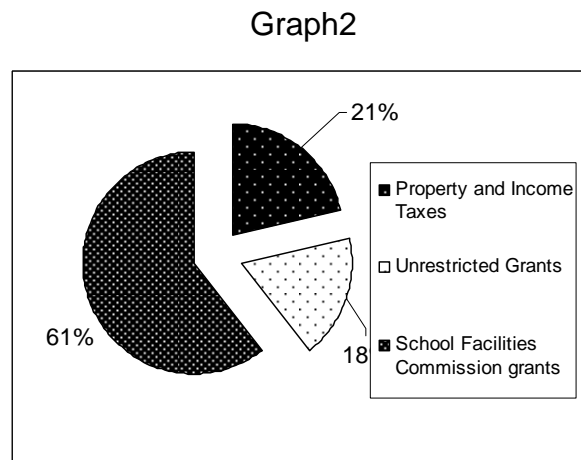
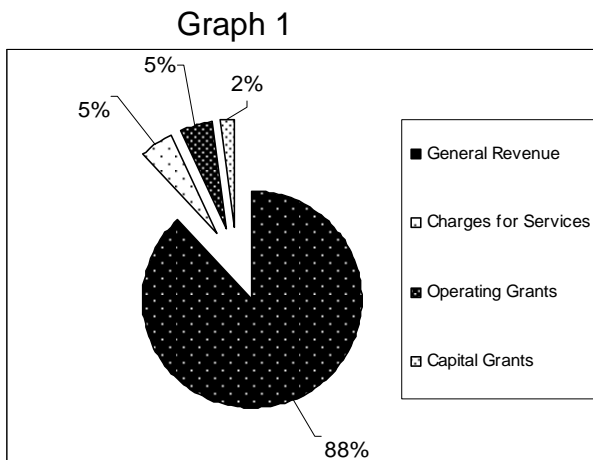
Table 1
Net Assets
(in Millions)

	<u>2010</u>	<u>2011</u>	<u>Change</u>
Assets			
Current and Other Assets	\$10.75	\$33.61	\$22.86
Restricted Cash	27.78	30.05	2.27
Capital Assets	<u>6.61</u>	<u>8.13</u>	<u>1.52</u>
Total Assets	<u>45.14</u>	<u>71.79</u>	<u>26.65</u>

Northwestern Local School District
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	<u>2010</u>	<u>2011</u>	<u>Change</u>
Liabilities			
Long-term Liabilities	(\$16.44)	(\$31.20)	(\$14.76)
Current and Other Liabilities	<u>(20.41)</u>	<u>(7.50)</u>	<u>12.91</u>
Total Liabilities	<u>(36.85)</u>	<u>(38.70)</u>	<u>(1.85)</u>
Net Assets			
Invested in Capital Assets	5.62	7.76	2.14
Restricted for:			
Perpetual Care	0.01	0.01	0.00
Debt Service	0.11	0.78	0.67
Grants	0.04	0.66	0.62
Capital Improvements	0.62	20.66	20.04
Unrestricted	<u>1.89</u>	<u>3.22</u>	<u>1.33</u>
Total Net Assets	<u><u>\$8.29</u></u>	<u><u>\$33.09</u></u>	<u><u>\$24.80</u></u>

Graphs 1 and 2 break down the School District's Fiscal Year 2011 revenue into percentages by type of revenue.



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Table 2 shows the revenue for the School District as a whole during fiscal years 2010 and 2011.

Table 2
Revenues
(in Millions)

	<u>2010</u>	<u>2011</u>	<u>Change</u>
Revenues			
Program Revenues			
Charges for Services	\$2.17	\$2.18	\$0.01
Operating Grants/Contributions	1.86	2.07	0.21
Capital Grants/Contributions	0.00	1.00	1.00
General Revenues			
Property Taxes	5.66	6.55	0.89
Income Taxes	0.39	1.63	1.24
Unrestricted Grants	7.19	6.89	(0.30)
School Facilities Commission Grant	0.00	23.11	23.11
Investment Earnings	0.05	0.09	0.04
Other	0.22	0.05	(0.17)
Total Revenues	<u><u>\$17.54</u></u>	<u><u>\$43.57</u></u>	<u><u>\$26.03</u></u>

Table 3 shows total program expenses for fiscal years 2010 and 2011.

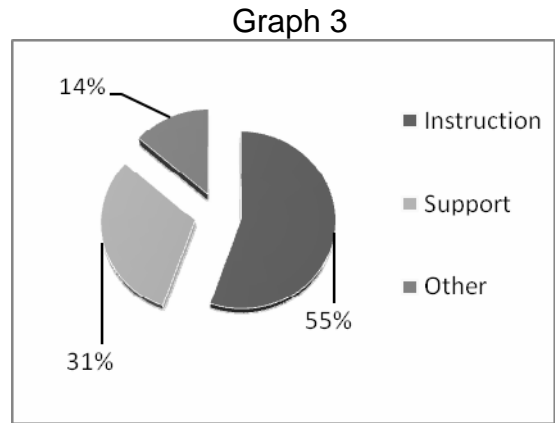
Table 3
Total Program Expenses
(in millions)

	<u>2010</u>	<u>2011</u>	<u>Change</u>
Program Expenses			
Instruction			
Regular	\$8.03	\$8.23	\$0.20
Special	2.14	2.17	0.03
Other	0.01	0.01	0.00

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Support Services	<u>2010</u>	<u>2011</u>	<u>Change</u>
Pupil/Staff	\$1.39	\$1.43	\$0.04
Administration	1.68	1.73	0.05
Other Expenses			
Maintenance	1.44	1.36	(0.08)
Transportation	1.08	1.15	0.07
Other	0.23	0.13	(0.10)
Food Services/Latchkey	0.62	0.63	0.01
Extracurricular Activities	0.44	0.44	0.00
Interest and Fiscal Charges	<u>0.19</u>	<u>1.49</u>	<u>1.30</u>
Total Expenses	<u>17.25</u>	<u>18.77</u>	<u>1.52</u>
Change in Net Assets	0.29	24.80	24.51
Beginning Balance	<u>8.00</u>	<u>8.29</u>	<u>0.29</u>
Ending Balance	<u><u>\$8.29</u></u>	<u><u>\$33.09</u></u>	<u><u>\$24.80</u></u>

Graph 3 shows a breakdown of Fiscal Year 2011 expenses by percentages in the major categories.



Northwestern Local School District
 Management's Discussion and Analysis
 For the Fiscal Year Ended June 30, 2011
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The Major Funds

The School District's presentation of the major funds starts on page 15. These funds are accounted for using the modified accrual basis of accounting, focusing on the near term financial resources of the School District. All governmental funds had total revenues of \$24.34 million and expenditures of \$20.52 million. The total of other financing sources was \$14.87 million. The net change in fund balance for the year was an increase of \$18.70 million in all funds. The net change was most significant in the Classroom Facilities Fund with an increase of \$15.72 million.

The General Fund recognized \$1.69 million in current liabilities for fiscal year 2011. Accrued salaries and benefits accounted for 69.67% of those liabilities. Property Taxes Receivable accounted for 84.80% of the \$5.86 million receivables in the General Fund.

In the Classroom Facilities Fund, restricted cash and cash equivalents accounted \$30.01 million of the \$48.93 million in assets in the Classroom Facilities Fund.

General Fund Budgetary

Table 4 depicts the change from the original to the final General Fund revenue budget for the fiscal year ended June 30, 2011.

**Table 4
 Original Budget versus Final Budget for General Fund Revenues**

	Budget	
	Original	Final
Revenues		
Property and Other Local Taxes	\$5,242,048	\$5,321,073
Income Tax	1,324,705	1,324,705
Intergovernmental	6,940,390	6,940,390
Other	1,140,724	1,333,933
Total Revenues	\$14,647,867	\$14,920,101

The original and final budgets are found on the Statement of Revenues, Expenditures, and Changes in Fund Balance statement. The largest variances are due to higher than expected collections in income taxes and tuition from open enrollment.

The actual revenues were 2.54 percent higher than final budget figures. The main difference is the property tax advance received at year end that is not budgeted for the current fiscal year.

Table 5 depicts the change from the original to the final general fund expenditure budget for the fiscal year ended June 30, 2011.

Northwestern Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2011
Unaudited

Table 5
Original Budget versus Final Budget for General Fund Expenditures

	Budget	
	Original	Final
Expenditures		
Instruction	\$9,577,041	\$9,587,876
Support Services	5,573,925	5,572,142
Other	306,168	351,168
Total Expenditures	\$15,457,134	\$15,511,186

The original and final budgets are found on the Statement of Revenues, Expenditures, and Changes in Fund Balance statement. The main difference in the actual expenditures to the final budget was in regular instruction as the School District changed insurance plans during the year resulting in actual expenditures being less than anticipated.

Capital Assets

At the end of the year, the School District had \$8,125,783 invested in land, buildings, equipment, and vehicles net of accumulated depreciation. For more detail information about the capital assets, refer to Note 9. Table 6 shows the breakdown of the individual classes for capital assets:

Table 6
Capital Assets

<u>Class</u>	<u>Historical Cost</u>	<u>Accumulated Depreciation</u>	<u>Book Value</u>
Land and Improvements	\$949,676	\$0	\$949,676
Construction in Progress	2,648,092	0	2,648,092
Buildings and Improvements	10,969,985	7,145,962	3,824,023
Furniture and Equipment	1,852,292	1,644,685	207,607
Vehicles	1,649,102	1,152,717	496,385
Totals	\$18,069,147	\$9,943,364	\$8,125,783

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Debt Administration

The School District has a capital lease for \$390,851 (principal and interest) for an addition to Northwestern Elementary. Eight additional classrooms and a gymnasium were added to the school. The lease was originated in 1998, and will be completely paid in December, 2013. For further information on the School District's obligation refer to Note 14 of the financial statements.

On May 26, 2010, the School District sold Qualified School Construction Bonds in the amount of \$15,000,000. The entire principal is due December 1, 2026. The bonds were sold a taxable rate of 5.82%. The United States Treasury will issue checks to the School District to pay 5.50% interest. The net interest cost to the district will be 0.32%.

On November 23, 2010, the School District sold Build America Bonds in the amount of \$13,240,000. The final principal payment is due December 1, 2038. The bonds were sold at an average net interest rate of 4.21%. The United States Treasury will issue checks to the School District to pay 35% of interest costs.

On March 31, 2011, the School District sold Qualified School Construction Bonds for a HB 264 Energy Conservation Project in the amount of \$1,385,000. The entire principal is due December 1, 2025. The bonds were sold at a taxable rate of 5.80%. The United States Treasury will issue checks to the School District to pay 5.30% interest. The net interest cost to the district will be 0.50%.

For the Future

State funding is a major issue for the School District. A new state funding formula is being discussed. The formula is still being developed and has not been proposed, but it could be effective July 1, 2012. It is unknown how this may affect the School District.

In November, 2009, the voters of the School District approved a new 1% continuing earned income tax. This is additional revenue that started with small collections in April, 2010. In August, 2010, the voters approved a new substitute levy that will replace the expiring emergency levies. Although this is not additional revenue, it does keep the current funding from these levies. The substitute levy must be renewed by November, 2016.

The construction of new school buildings to replace the current buildings was planned to be begin in July, 2011. Because of market conditions, the constructions bids were over budget at the June, 2011 bid opening. Design changes were made to the buildings and new bids are scheduled to be opened in January, 2012.

In conclusion, the Northwestern Local School District has committed itself to financial excellence for many years. Before the November, 2009 levy, the last increase in local

Northwestern Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2011
Unaudited

tax millage was approved in 1992. The School District's system of financial planning, budgeting, and internal financial controls are well regarded. Current economic conditions present possible major challenges. Budget cuts have been made over the last couple years and more cuts will be made in the future as the revenue decreases. The School District plans to continue its sound fiscal management to meet the challenges of the future.

Contacting the School District's Financial Management

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

Northwestern Local School District
Clark County, Ohio
Statement of Net Assets
June 30, 2011

	Primary Government
	Governmental Activities
<u>Assets</u>	
Equity in Pooled Cash and Cash Equivalents	\$6,732,163
Receivables:	
Property and Other Taxes	6,224,755
Income Taxes	861,458
Accounts	21,908
Accrued Interest	22,180
Intergovernmental	19,408,897
Materials and Supplies Inventory	39,175
Prepaid Items	2,944
Deferred Charges	304,134
Restricted Cash and Cash Equivalents	30,051,582
Non-Depreciable Capital Assets	3,597,768
Depreciable Capital Assets	4,528,015
Total Assets	71,794,979
<u>Liabilities</u>	
Payables:	
Accounts	27,063
Contracts	110,910
Intergovernmental	476,822
Interest	47,071
Salaries and Employee Benefits	1,346,791
Claims	1,283
Deferred Revenue	5,499,394
Noncurrent Liabilities:	
Due within one year	1,163,741
Due in more than one year	30,032,665
Total Liabilities	38,705,740
<u>Net Assets</u>	
Invested in capital assets, net of related debt	7,760,783
Restricted for:	
Debt Service	777,823
Perpetual Care	5,355
Grants	662,295
Capital Improvements	20,662,561
Unrestricted	3,220,422
Total Net Assets	\$33,089,239

See accompanying notes to the basic financial statements

**Northwestern Local School District
Clark County, Ohio
Statement of Activities
For the Fiscal Year Ended June 30, 2011**

<u>Function/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Changes in Net Assets</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>
Governmental Activities:					
Instruction:					
Regular	\$8,231,970	\$1,385,519	\$866,602	\$0	(\$5,979,849)
Special	2,166,950	0	724,365	0	(1,442,585)
Other	8,947	0	0	0	(8,947)
Support Services:					
Pupils	657,168	82,643	120,834	0	(453,691)
Instructional Staff	776,606	0	107,916	0	(668,690)
Board of Education	68,190	0	0	0	(68,190)
Administration	1,193,264	0	0	0	(1,193,264)
Fiscal	467,598	0	0	0	(467,598)
Operation and Maintenance of Plant	1,359,919	793	0	16,160	(1,342,966)
Pupil Transportation	1,147,733	0	0	0	(1,147,733)
Central	129,275	0	0	0	(129,275)
Food Service	583,789	374,099	253,273	0	43,583
Latchkey	41,976	47,622	0	0	5,646
Extracurricular Activities	439,299	291,231	0	0	(148,068)
Interest and Fiscal Charges	1,495,703	0	0	980,581	(515,122)
Total Primary Government	\$18,768,387	\$2,181,907	\$2,072,990	\$996,741	(13,516,749)

General Revenues:	
Property Taxes - General Purposes	5,371,731
Property Taxes - Debt Service	995,225
Property Taxes - Capital	182,195
Income Taxes	1,626,870
Grants and Contributions not restricted to specific programs	6,893,198
Grants from School Facilities Commission for capital construction	23,105,515
Unrestricted investment earnings	93,039
Miscellaneous	47,403
Total General Revenues	38,315,176
Changes in Net Assets	24,798,427
Net Assets-Beginning	8,290,812
Net Assets-Ending	\$33,089,239

See accompanying notes to the basic financial statements

Northwestern Local School District
Clark County, Ohio
Balance Sheet - Governmental Funds
June 30, 2011

	General	Debt Service	Classroom Facilities	Other Governmental Funds	Total Governmental Funds
Assets					
Equity in Pooled Cash and Cash Equivalents	\$4,027,502	\$446,502	\$0	\$2,258,159	\$6,732,163
Receivables:					
Property and Other Taxes	4,970,094	1,166,924	0	87,737	6,224,755
Accounts	21,537	0	0	371	21,908
Income Taxes	861,458	0	0	0	861,458
Accrued Interest	2,627	0	19,553	0	22,180
Intergovernmental	5,070	0	18,895,401	508,426	19,408,897
Prepaid Items	2,944	0	0	0	2,944
Materials and Supplies Inventory	32,672	0	0	6,503	39,175
Restricted Assets:					
Cash and Cash Equivalents	39,318	0	30,012,264	0	30,051,582
Total Assets	\$9,963,222	\$1,613,426	\$48,927,218	\$2,861,196	\$63,365,062
Liabilities and Fund Balances					
Liabilities					
Payables:					
Accounts	\$26,565	\$250	\$0	\$248	\$27,063
Contracts	0	0	110,910	0	110,910
Due to Local Governments	434,841	0	0	41,981	476,822
Salaries and Employee Benefits	1,177,973	0	0	168,818	1,346,791
Matured Leave Payable	50,136	0	0	0	50,136
Claims Payable	1,283	0	0	0	1,283
Deferred Revenue	4,938,693	883,234	18,895,401	566,023	25,283,351
Total Liabilities	6,629,491	883,484	19,006,311	777,070	27,296,356
Fund Balances:					
Nonspendable	35,616	0	0	10,503	46,119
Restricted	39,318	729,942	29,920,907	2,026,236	32,716,403
Committed	0	0	0	95,837	95,837
Assigned	194,988	0	0	0	194,988
Unassigned	3,063,809	0	0	(48,450)	3,015,359
Total Fund Balances	3,333,731	729,942	29,920,907	2,084,126	36,068,706
Total Liabilities and Fund Balances	\$9,963,222	\$1,613,426	\$48,927,218	\$2,861,196	\$63,365,062

See accompanying notes to the basic financial statements

Reconciliation of Total Governmental Fund Balances to Net asset of Governmental Activities

Total Governmental Fund Balances \$36,068,706

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. 8,125,783

Deferred charges are amortized over the useful life of the related debt but are reported as expenditures in the funds. 304,134

Some of the School District's revenues will be collected after fiscal year-end, but are not available soon enough to pay for the current period's expenditures and therefore are deferred in the funds. 19,763,957

Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds. (31,193,341)

Net Assets of Governmental Activities \$33,089,239

Northwestern Local School District
Clark County, Ohio
Statement of Revenues, Expenditures and Changes in Fund Balances -
Governmental Funds
For the Fiscal Year Ended June 30, 2011

	General	Debt Service	Classroom Facilities	Other Governmental Funds	Total Governmental Funds
Revenues:					
Property and Other Taxes	\$5,411,780	\$947,344	\$0	\$183,452	\$6,542,576
Income Taxes	1,600,529	0	0	0	1,600,529
Intergovernmental	6,944,128	1,069,107	4,210,114	1,663,633	13,886,982
Charges for Services	82,643	0	0	374,099	456,742
Tuition and Fees	1,374,718	0	0	58,056	1,432,774
Interest	15,623	766	76,114	536	93,039
Rent	793	0	0	0	793
Extracurricular Activities	160,711	0	0	113,605	274,316
Miscellaneous	32,458	0	0	16,915	49,373
Total Revenues	15,623,383	2,017,217	4,286,228	2,410,296	24,337,124
Expenditures:					
Instruction:					
Regular	7,444,209	0	0	612,404	8,056,613
Special	1,571,220	0	0	602,218	2,173,438
Other	8,947	0	0	0	8,947
Support Services:					
Pupils	593,855	0	0	63,302	657,157
Instructional Staff	666,797	0	0	103,732	772,529
Board of Education	67,884	0	0	0	67,884
Administration	1,186,296	1,695	0	324	1,190,315
Fiscal	448,765	13,152	0	3,531	465,448
Operation and Maintenance of Plant	1,186,759	0	0	23,500	1,210,259
Pupil Transportation	1,069,232	0	0	139	1,069,371
Central	128,641	0	0	0	128,641
Operation of Non-Instructional Services	0	0	0	628,056	628,056
Extracurricular Activities	309,059	0	0	130,290	439,349
Capital Outlay	7,401	0	1,908,527	16,300	1,932,228
Debt Service:					
Principal Retirement	0	0	0	125,000	125,000
Interest and Fiscal Charges	0	1,349,879	0	37,774	1,387,653
Issuance Costs	0	130,200	50,988	30,800	211,988
Total Expenditures	14,693,065	1,494,926	1,959,515	2,377,370	20,524,876
Excess of Revenues Over Expenditures	930,318	522,291	2,326,713	32,926	3,812,248
Other Financing Sources:					
Face Value from Sale of Bonds	0	13,240,000	0	1,385,000	14,625,000
Premium on the Sale of Bonds	0	258,221	0	0	258,221
Sale of Capital Assets	3,363	0	0	0	3,363
Transfers - In	0	0	13,395,437	110,721	13,506,158
Transfers - Out	(110,721)	(13,395,437)	0	0	(13,506,158)
Total Other Financing Sources	(107,338)	102,784	13,395,437	1,495,721	14,886,604
Net Change in Fund Balances	822,980	625,075	15,722,150	1,528,647	18,698,852
Fund Balances - beginning (restated)	2,510,751	104,867	14,195,757	555,479	17,369,854
Fund Balances - ending	\$3,333,731	\$729,942	\$29,920,907	\$2,084,126	\$36,068,706

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

Change in net assets of governmental activities
\$24,798,427

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities

Net Change in Governmental Fund Balances	\$18,698,852
Amounts reported in governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	1,516,523
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	19,214,745

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities:

Proceeds from issuance of bonds	(14,625,000)
Premium on bonds issued	(258,221)
Principal paid on bonds	125,000
Issuance costs on bond issued	156,350
Current year bond premium amortized	14,945
Current year issuance costs amortized	(10,006)

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

Change in net assets of governmental activities
\$24,798,427

See accompanying notes to the basic financial statements

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

	General Fund			Variance with Final Budget Positive (Negative)
	Budgeted Amounts		Actual	
	Original	Final		
<u>Revenues:</u>				
Property and Other Local Taxes	\$5,242,048	\$5,321,073	\$5,813,775	\$492,702
Intergovernmental	6,940,390	6,940,390	6,939,178	(1,212)
Income Taxes	1,324,705	1,324,705	1,059,773	(264,932)
Tuition and Fees	1,115,256	1,212,596	1,374,681	162,085
Interest	25,468	25,468	15,253	(10,215)
Charges for Services	0	82,643	82,643	0
Rent	0	893	893	0
Miscellaneous	0	12,333	12,333	0
Total Revenues	14,647,867	14,920,101	15,298,529	378,428
<u>Expenditures:</u>				
Current:				
Instruction:				
Regular	8,044,924	8,056,604	7,327,834	728,770
Special	1,516,947	1,517,347	1,567,240	(49,893)
Other	15,170	13,925	11,627	2,298
Support Services:				
Pupils	604,036	602,520	614,201	(11,681)
Instructional Staff	712,930	713,453	672,471	40,982
Board of Education	84,339	84,379	70,281	14,098
Administration	1,207,969	1,207,417	1,182,033	25,384
Fiscal	430,272	430,272	432,820	(2,548)
Operation and Maintenance of Plant	1,308,688	1,308,275	1,215,881	92,394
Pupil Transportation	1,044,384	1,044,519	1,066,298	(21,779)
Central	181,307	181,307	140,998	40,309
Extracurricular Activities	306,168	306,168	316,475	(10,307)
Capital Outlay	0	45,000	45,000	0
Total Expenditures	15,457,134	15,511,186	14,663,159	848,027
Excess of Revenues Over (Under) Expenditures	(809,267)	(591,085)	635,370	1,226,455
<u>Other Financing Sources (Uses):</u>				
Proceeds from Sale of Capital Assets	0	0	3,383	3,383
Refund of Prior Year Expenditures	10,000	10,000	21,746	11,746
Advances Out	(10,000)	(10,000)	0	10,000
Transfers Out	(120,721)	(120,721)	(110,721)	10,000
Total Other Financing Sources (Uses)	(120,721)	(120,721)	(85,592)	35,129
Net Change in Fund Balance	(929,988)	(711,806)	549,778	1,261,584
Fund Balances at Beginning of Year - Restated	2,488,214	2,488,214	2,488,214	0
Prior Year Encumbrances Appropriated - Restated	156,530	156,530	156,530	0
Fund Balance at End of Year	\$1,714,756	\$1,932,938	\$3,194,522	\$1,261,584

See accompanying notes to the basic financial statements

Northwestern Local School District
Clark County, Ohio
Statement of Fiduciary Assets and Liabilities -
Fiduciary Funds
June 30, 2011

	<u>Agency</u>
<u>Assets</u>	
Equity in Pooled Cash and Cash Equivalents	<u><u>\$92,773</u></u>
<u>Liabilities</u>	
Due to Students	<u>92,773</u>
Total Liabilities	<u><u>\$92,773</u></u>

See accompanying notes to the basic financial statements

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

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

The School District is located in Clark County It is staffed by 72 non-certificated employees, 114 certificated full-time teaching personnel and 10 administrative employees who provide services to 1,863 students and other community members.

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

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

The School District is associated with four jointly governed organizations and one insurance purchasing pool. These organizations are discussed in Note 17 to the basic financial statements. These organizations are:

Jointly Governed Organizations:

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

Northwestern Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY (continued)

Insurance Purchasing Pool:
Southwestern Ohio Educational Purchasing Council
Workers' Compensation Group Rating Plan

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Government-wide and Fund Financial Statements

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

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

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Measurement focus, basis of accounting, and financial statement presentation

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

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

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

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

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. The District employs the use of two categories of funds: governmental and fiduciary.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Governmental Funds

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

The School District reports the following major governmental funds:

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

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

The *Classroom Facilities Fund* is provided to account for monies received and expended in connection with contracts entered into by the School District and the Ohio School Facilities Commission for the constructing and equipping of the School District's new school buildings.

Fiduciary Fund

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Budgetary Process

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

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

Tax Budget:

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Estimated Resources:

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

Appropriations:

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Lapsing of Appropriations:

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

D. Cash and Cash Equivalents

To improve cash management, all cash received by the School District is pooled in a central bank account. Monies for all funds are maintained in this account or temporarily used to purchase short-term investments. Individual fund integrity is maintained through School District records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" on the statement of net assets and governmental fund balance sheet.

The School District reports the balance of notes and bond proceeds as "restricted cash and cash equivalents" on the Statement of Net Assets and the Governmental Fund Balance Sheet.

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

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year amounted to \$15,263 which includes \$14,014 assigned from other funds. The debt service fund, food service special revenue fund, LFI construction, and classroom facilities capital projects fund received \$766, \$22, \$508, and \$76,144 respectively, interest. The permanent fund received \$6 interest.

E. Inventory

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

F. Prepaid Items

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

G. Capital Assets and Depreciation

Capital assets, which include property, plant, equipment, and vehicles, are reported on the government-wide statements. All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The School District maintains a capitalization threshold of \$500. The School District does not have any infrastructure.

Improvements are capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

H. Compensated Absences

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

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

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

I. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and other long-term obligations are reported on the government-wide financial statements. In general, governmental fund payables and accrued liabilities are reported as obligations of the funds regardless of whether they will be liquidated with current resources. However, compensated absences are reported as liabilities in the fund financial statements only to the extent they will not be paid with current expendable available financial resources.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

J. Interfund Transactions

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

K. Deferred Revenues

Deferred revenues arise when assets are recognized before revenue recognition criteria have been satisfied.

Property and income taxes for which there is an enforceable legal claim as of June 30, 2011, but which were levied to finance fiscal year 2012 operations, have been recorded as deferred revenues. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenues.

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

L. Exchange/Non-Exchange Transactions

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Non-exchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (see Note 6). Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the School District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

M. Restricted Assets

Restricted assets in the General Fund are cash and cash equivalents whose use is limited by legal requirements. Restricted assets represent resources required by statute to be set-aside by the School District to create a reserve for budget stabilization. See Note 19 for the calculation of the year-end restricted asset balance. In the Classroom Facilities Fund, restricted assets represent unspent debt proceeds and related earnings to be used for the Ohio School Facilities project.

N. Fund Balance

The School District implemented GASB No. 54 "*Fund Balance Reporting and Governmental Fund Type Definitions*" during the fiscal year. The School District no longer reports reservations of fund balance on the governmental balance sheet. The School District reports the following categories:

- Nonspendable fund balance relates to the value of consumable inventories and prepaids.
- Restricted fund balances related to resources that have external purpose restraints imposed on them by providers such as grantors.
- Committed fund balances are balances the School District Board has determined can be used only for specific purposes through formal resolution.
- Assigned fund balances are balances intended to be used for specific purposes through the School District's formal purchasing procedure by the Treasurer.
- Unassigned fund balance is the residual classification for the general fund or deficit fund balance in all other governmental funds.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

When the School District has multiple fund balances available within a particular fund, the School District will spend the funds in the following order – committed, assigned then unassigned. Nonspendable and restricted balance are subject to the governing documents and not subject to School District policy for spending the balances.

The District applies restricted resources first when an expenditure is incurred for purposes for which both restricted and unrestricted fund balances are available.

O. Net Assets

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

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

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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Q. Reconciliation of government-wide and fund financial statements

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

The governmental fund balance sheets includes a reconciliation between *fund balance – total governmental funds* and *net assets – governmental activities* as reported in the government-wide statement of net assets. One element of that reconciliation explains that “long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.” The details of this (\$31,193,341) difference are as follows:

Bonds Payable	(\$29,625,000)
Premium on Bonds	(401,068)
Accrued Interest	(47,071)
Capital Lease Payable	(365,000)
Compensated Absences	(755,202)
Net Adjustment to reduces <i>fund balance – total governmental funds</i> to arrive at <i>net assets – governmental activities</i>	(\$31,193,341)

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

Another element of that reconciliation explains that “capital assets used in governmental activities are not financial resources and, therefore, are not reported in the fund.” The details of the \$8,125,783 difference are as follows:

Capital Assets	\$18,069,147
Accumulated Depreciation	(9,943,364)
Net Adjustment to increase <i>fund balance – total governmental funds</i> to arrive at <i>net assets – governmental activities</i>	\$8,125,783

Northwestern Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The reconciliation states that “Capital additions are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense.” The details of this \$1,516,523 are as follows:

Current Capital Additions	\$1,969,042
Net loss on disposals	(2,727)
Depreciation Expense	<u>(449,792)</u>
Net Adjustment – capital assets to increase <i>fund balance – total governmental funds</i> to arrive at <i>net assets – governmental activities</i>	<u>\$1,516,523</u>

An element of that reconciliation states that “some items reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures/revenues in the governmental fund.” The details of this (\$34,759) are as follows:

Change in Leave Balances	\$7,645
Net Interest on Bonds	<u>(42,404)</u>
Net Adjustment – current financial resources focus to increase <i>fund balance – total governmental funds</i> to arrive at <i>net assets – governmental activities</i>	<u>(\$34,759)</u>

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

At June 30, 2011, the IDEA VI-B, SFSF, Title I, Early Childhood Education, and Title IIA special revenue funds have deficit fund balances of \$622, \$44,044, \$2,517, \$78, and \$1,183 respectively.

The General Fund is liable for any deficit in the IDEA VI-B, SFSF, Title I, Early Childhood Education, and Title IIA special revenue funds and provides transfers to cover deficit balances; however, this is done when cash is needed rather than when accruals occur.

NOTE 4 - BUDGETARY BASIS OF ACCOUNTING

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

Northwestern Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

NOTE 4 - BUDGETARY BASIS OF ACCOUNTING (continued)

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

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures/expenses for all funds (budget basis) rather than as a reservation of fund balance.
4. The net revenues and expenditures recorded on a GAAP basis from funds reclassified under GASB 54 are reported independent from revenues and expenditures reported only in the General Fund.

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

Net Change in
Fund Balances -
General Fund

	General
GAAP Basis:	\$822,980
Revenue Accruals	(144,018)
Expenditure Accruals	(11,927)
Encumbrances	(113,984)
GASB 54 net effect	(3,273)
Budget Basis	\$549,778

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, but not limited to, time certificates of deposit maturing not more than one year from the date of deposit, or must evidence interim deposits by savings or deposit accounts including passbook accounts.

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

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

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

Northwestern Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

NOTE 5 - DEPOSITS AND INVESTMENTS (continued)

2. Bonds, notes debentures, or any other obligations or security issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and student loan marketing association. All federal agency securities shall be direct issuance of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio); and
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred eighty days from the date of purchase in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time.

Investments in stripped principal or interest 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.

Northwestern Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

NOTE 5 - DEPOSITS AND INVESTMENTS (continued)

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

A. Deposits

At fiscal year end, the carrying amount of the School District's deposits was \$5,737,099 and the bank balance was \$6,164,390. \$250,000 was insured by federal depository insurance. Based on criteria described in GASB 40, "Deposits and Investment Risk Disclosures", as of June 30, 2011, \$5,914,390 of the School District's bank balance was exposed to custodial credit risk because it was uninsured and uncollateralized with securities held by the pledging financial institution's trust department or agent, but not in the School District's name.

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

B. Investments

As of June 30, 2011, the School District had the following investments.

Investment Type	Fair Value	Maturity in Years	
		Less than One Year	One to Five Years
FHLB Notes	\$14,172,990	\$7,736,797	\$6,436,193
US Treasury Bills	3,506,012	3,506,012	0
FHLMC Notes	8,852,201	0	8,852,201
FNMA Notes	1,515,459	0	1,515,459
FHLMC Discount Notes	1,347,787	1,347,787	0
FHLB Discount Notes	1,318,720	1,318,720	0
Fifth Third Gov Money Mkt Fund	243,079	243,079	0
First America Treasury Mkt Fund	24,928	24,928	0
STAR Ohio	158,243	158,243	0
Total Investments	\$31,139,419	\$14,335,566	\$16,803,853

NOTE 5 - DEPOSITS AND INVESTMENTS (continued)

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

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

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

Concentration of Credit Risk - The School District places no limit on the amount it may invest in any one issuer. The School District's investment in Federal Home Loan Bank Notes represent 45.51%, US Treasury Bills represent 11.26%, Federal Home Loan Mortgage Notes represent 28.43%, Federal National Mortgage Association Notes represent 4.87%, Federal Home Loan Discount Notes represent 4.33%, Federal Home Loan Bank Discount Notes represent 4.23%, Fifth Third Institutional Money Market Fund represents 0.78%, First America Treasury Market Fund represents 0.08%, and STAR Ohio is 0.51% of the School District's total investments.

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

Northwestern Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

NOTE 5 - DEPOSITS AND INVESTMENTS (continued)

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

	Cash and Cash Equivalents/Deposits	Investments
Equity in Pooled Cash and Cash Equivalents – Basic Financial Statements	\$36,876,518	\$0
Investments:		
FHLB Notes	(14,172,990)	14,172,990
US Treasury Bills	(3,506,012)	3,506,012
FHLMC Notes	(8,852,201)	8,852,201
FNMA Notes	(1,515,459)	1,515,459
FHLB Discount Notes	(1,318,720)	1,318,720
FNMA Discount Notes	(1,347,787)	1,347,787
Fifth Third Inst Govt Money Mkt Fund	(243,079)	243,079
First America Treasury Market Fund	(24,928)	24,928
STAR Ohio	(158,243)	158,243
GASB Statement No. 3	\$5,737,099	\$31,139,419

NOTE 6 - PROPERTY TAXES

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

Property taxes include amounts levied against all real, public utility and tangible personal property located in the School District. Property tax revenue received during calendar 2011 for real and public utility property taxes represents collections of calendar 2010 taxes.

2011 real property taxes are levied after April 1, 2011, on the assessed value as of January 1, 2011, the lien date. Assessed values are established by State law at thirty-five percent of appraised market value.

Northwestern Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

NOTE 6 - PROPERTY TAXES (continued)

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

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

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

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

Accrued property taxes receivable represents delinquent taxes outstanding and real property, personal property and public utility taxes, which became measurable as of June 30, 2011, and for which there is an enforceable claim. Although total property tax collections for the next fiscal year are measurable, only the amounts available as an advance at June 30, were levied to finance current year operations. The receivable is therefore offset by a credit to deferred revenue for that portion not levied to finance current year operations. The total amount available as an advance at June 30, 2011 was \$444,698 and is recognized as revenue. \$158,638 was available to the general fund, \$283,690 was available to the bond retirement fund, and \$2,370 was available to the permanent improvement capital projects fund.

Northwestern Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

NOTE 6 - PROPERTY TAXES (continued)

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

	2010 Second- Half Collections		2011 First- Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential and Other Real Estate	\$205,057,860	97.48%	\$205,316,680	97.20%
Public Utility Personal	5,140,144	2.44	5,905,510	2.80
Tangible Personal Property	<u>156,477</u>	<u>0.08</u>	<u>0</u>	<u>0.00</u>
Total Assessed Value	<u>\$210,354,481</u>	<u>100.00%</u>	<u>\$211,222,190</u>	<u>100.00%</u>
Tax rate per \$1,000 of Assessed valuation	\$32.20		\$33.45	

NOTE 7 – INCOME TAX

The School District levies an income tax of one percent on substantially all income earned by School District residents.

Employers with employees based in the state of Ohio are required to withhold income tax on employee compensation and remit the tax to the Ohio Department of Taxation either monthly or quarterly. Individuals may make estimated payments.

Income tax proceeds are to be used to pay General Fund operations of the School District. The proceeds are allocated to the General Fund. Income tax revenue for fiscal year 2011 was \$1,600,529.

Northwestern Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

NOTE 8 - RECEIVABLES

Receivables at June 30, 2011, consisted of property taxes, income taxes, accounts (student fees), interfund, accrued interest, and intergovernmental grants. All receivables are considered collectible in full due.

A summary of the principal items of intergovernmental receivables follows:

Intergovernmental Receivables:	Amount
General Fund	
SERS Refund	\$5,070
Classroom Facilities Fund	
Ohio School Facilities Commission	18,895,401
Nonmajor Governmental Funds	
Food Service	26,133
Education Jobs	355,698
Title IID	202
Title I – School Improvement	2,610
Title I	121,498
Drug Free	2,008
Title IIA	277
Total	\$19,408,897

NOTE 9 - CAPITAL ASSETS

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

	Balance 7/01/10	Increases	Decreases	Balance 6/30/11
Governmental Activities				
<i>Capital Assets, not being depreciated</i>				
Land	\$949,676	\$0	\$0	\$949,676
Construction in Process	724,689	1,923,403	0	2,648,092
<i>Capital Assets, being depreciated</i>				
Buildings and Improvements	10,969,985	0	0	10,969,985
Furniture and Equipment	2,329,840	45,639	(523,187)	1,852,292
Vehicles	1,680,013	0	(30,911)	1,649,102
Total at Historical Cost	16,654,203	1,969,042	(554,098)	18,069,147
Total Accumulated Depreciation	(10,044,943)	(449,792)	551,371	(9,943,364)
Governmental Activities				
Capital Assets, Net	\$6,609,260	\$1,519,250	(\$2,727)	\$8,125,783

Northwestern Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

NOTE 9 - CAPITAL ASSETS (continued)

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$194,252
Special	60
Support Services:	
Pupils	628
Instructional Staff	2,937
Board of Education	306
Administration	2,378
Fiscal	433
Operation and Maintenance of Plant	146,813
Pupil Transportation	86,764
Central	634
Food Service	2,668
Extracurricular Activities	11,919
Total Depreciation Expense	\$449,792

NOTE 10 - RISK MANAGEMENT

A. Property and Liability

The School District is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2011, the School District contracted with Gallagher Insurance for property, general liability, professional and fleet insurance. Coverage provided by Gallagher is as follows:

Building and Contents-replacement cost (\$1,000 deductible)	-\$350,000,000 Blanket Limit -Refer to Statement of Value for specific limits
Boiler and Machinery (\$3,500 deductible)	100,000,000
Automobile Liability (no deductible)	1,000,000
Professional Liability (\$5,000 deductible)	
Single Occurrence	1,000,000
Aggregate	1,000,000
General Liability (no deductible)	
Per occurrence	1,000,000
Total per year (per member)	3,000,000
Excess Liability/Umbrella (no deductible)	
Per occurrence	5,000,000
Total per year (per member)	5,000,000
Pollution Legal Liability (\$25,000 deductible)	
Per Occurrence	1,000,000
Total Aggregate Limit	10,000,000

NOTE 10 - RISK MANAGEMENT (continued)

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

B. Workers' Compensation

For fiscal year 2011, the School District participated in the Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan (GRP), a workers' compensation insurance purchasing pool (Note 17). The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience, and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund." This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Integrated Comp Inc. provides administrative, cost control, and actuarial services to the GRP.

NOTE 11 - DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

Plan Description - The School District contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746. It is also posted on SERS at www.ohsers.org under Employers/Audit Resources.

Northwestern Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

NOTE 11 - DEFINED BENEFIT PENSION PLANS (continued)

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current School District rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2011, 11.81 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to a 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 to SERS for the fiscal years ended June 30, 2011, 2010, and 2009 were \$245,250, \$327,143, and \$194,222, respectively; 30.16 percent has been contributed for fiscal year 2011 and 100 percent for fiscal years 2010 and 2009.

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 stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio Web site at www.strsoh.org.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan, and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on a member's 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.

Northwestern Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

NOTE 11 - DEFINED BENEFIT PENSION PLANS (continued)

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 credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member of the DC Plan dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Funding Policy - For the fiscal year ended June 30, 2011, plan members were required to contribute 10 percent of their annual covered salaries. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2010, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. 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, 2011, 2010, and 2009 were \$882,244, \$919,652, and \$893,140 respectively; 83.97 percent has been contributed for fiscal year 2011 and 100 percent for fiscal years 2010 and 2009. Contributions to the DC and Combined Plans for fiscal year 2011 were \$7,710 made by the School District and \$10,794 made by the plan members.

NOTE 11 - DEFINED BENEFIT PENSION PLANS (continued)

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System of Ohio have an option to choose Social Security or the School Employees Retirement System. As of June 30, 2011, four members of the Board of Education have elected Social Security. The School District's liability is 6.2% of wages paid.

NOTE 12- POSTEMPLOYMENT BENEFITS

A. School Employee 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, and traditional indemnity plans as well as a prescription drug program. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries up to a statutory limit. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746. It is also posted on SERS at 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 401h. For 2011, 1.43 percent of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined amount; for 2011, this amount was \$35,800.

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

Northwestern Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

NOTE 12- POSTEMPLOYMENT BENEFITS (continued)

The School District's contributions for health care for the fiscal years ended June 30, 2011, 2010, and 2009, were \$60,349, \$11,775, and \$88,885, respectively; 30.16 percent has been contributed for fiscal year 2011 and 100 percent for fiscal years 2010 and 2009.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For 2011, this actuarially required allocation was 0.76 percent of covered payroll. The School District's contributions for Medicare Part B for the fiscal year ended June 30, 2011, 2010 and 2009 was \$15,782, \$19,455, and \$16,025, 30.16 percent has been contributed for fiscal year 2011 with 100% for fiscal year 2010 and 2009.

B. State Teachers Retirement System

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

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 2011, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The School District's contributions for health care for the fiscal years ended June 30, 2011, 2010, and 2009 were \$67,865, \$70,742, and \$68,703, respectively; 83.97 percent has been contributed for fiscal year 2011 and 100 percent for fiscal years 2010 and 2009.

NOTE 13 - EMPLOYEE BENEFITS

A. Compensated Absences

The criteria for determining vacation and sick leave components are derived from negotiated agreements and State laws. Classified employees earn five to twenty-five days of vacation per fiscal year, depending upon length of service. Accumulated, unused vacation time is paid to classified employees and administrators. Teachers do not earn vacation time.

Teachers, administrators, and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of 220 days for classified and 255 days for certified personnel. Upon retirement, payment is made for 25 percent for teachers and 25 percent for other employees of accrued, but unused sick leave credit to a maximum of 55 days for certified employees.

B. Insurance Benefits

The School District provides life insurance and accidental death and dismemberment insurance to most employees through Anthem. Medical/surgical benefits are provided through Anthem, dental insurance through Core Source, and vision insurances through Vision Service Plan.

NOTE 14 - CAPITAL LEASES - LESSEE DISCLOSURE

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

The lease meets the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases," which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital lease payments have been reclassified and are reflected as debt service expenditures in the basic financial statements. These expenditures are reported as function expenditures on a budgetary basis.

Capital assets have been capitalized on the statement of net assets in the amount \$1,510,000 and a corresponding liability was recorded. This amount represents the present value of the minimum lease payments at the time of acquisition. Principal payments in fiscal year 2011 totaled \$125,000.

Northwestern Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

NOTE 14 - CAPITAL LEASES - LESSEE DISCLOSURE (continued)

The following is a schedule of the future long-term minimum lease payments required under the capital leases and the present value of the minimum lease payments as of June 30, 2011.

<u>Fiscal Year Ending June 30,</u>	<u>Capital Lease</u>
2012	\$145,012
2013	148,393
2014	97,446
Total	<u>390,851</u>
Less: Amount Representing Interest	(25,851)
Present Value of Net Minimum Lease Payments	<u><u>\$365,000</u></u>

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

<u>Fiscal Year Ending June 30,</u>	<u>Governmental Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$130,000	\$15,012	\$145,012
2013	140,000	8,393	148,393
2014	95,000	2,446	97,446
Total	<u>\$365,000</u>	<u>\$25,851</u>	<u>\$390,851</u>

NOTE 15 - LONG-TERM LIABILITIES

The changes in the School District's long-term obligations (non-current liabilities) during fiscal year 2011 were as follows:

	<u>Amount Outstanding 6/30/2010</u>	<u>Additions</u>	<u>Deductions</u>	<u>Amount Outstanding 6/30/2011</u>	<u>Amounts Due in One Year</u>
Governmental Activities					
Qualified School Const Bonds	\$15,000,000	\$1,385,000	\$0	\$16,385,000	\$520,000
Build American Bonds	0	13,240,000	0	13,240,000	400,000
Premium on Bonds	157,792	258,221	14,945	401,068	0
Capital Leases	490,000	0	125,000	365,000	130,000
Compensated Absences	<u>795,376</u>	<u>375,174</u>	<u>365,212</u>	<u>805,338</u>	<u>113,741</u>
Total	<u>\$16,443,168</u>	<u>\$15,258,395</u>	<u>\$505,157</u>	<u>\$31,196,406</u>	<u>\$1,163,741</u>

Northwestern Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

NOTE 15 - LONG-TERM LIABILITIES (continued)

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

The School District's overall legal debt margin was \$19,009,997 with an unvoted debt margin of \$211,222 and an energy conservation debt margin of \$1,901,000 at June 30, 2011.

In November, 2009, voters in the School District approved the issuance of bond for the construction of two new school buildings to replace the three buildings currently in use.

On May 26, 2010, the School District sold Qualified School Construction Bonds in the amount of \$15,000,000. The entire principal is due December 1, 2026. The bonds were sold at a taxable rate of 5.82%. The United States Treasury will issue checks to the school district to pay 5.50% interest. The net interest cost to the district will be 0.32%. The amortization schedule with net interest and the sinking fund payment is as follows:

<u>Qualified School Construction Bonds - Building</u>			
Fiscal Year Ending June 30,	Principal	Interest	Total
2012	\$430,000	\$48,000	\$478,000
2013	555,000	48,000	603,000
2014	590,000	48,000	638,000
2015	720,000	48,000	768,000
2016	760,000	48,000	808,000
2017-2021	4,560,000	240,000	4,800,000
2022-2026	5,895,000	240,000	6,135,000
2027	1,490,000	24,000	1,514,000
Totals	<u>\$15,000,000</u>	<u>\$744,000</u>	<u>\$15,744,000</u>

On November 23, 2010, the School District sold Build America Bonds in the amount of \$13,240,000. The final principal payment is due December 1, 2038. The bonds were sold at an average net interest rate of 4.21%. The United States Treasury will issue checks to the School District to pay 35% of interest costs. The amortization schedule with net interest and the principal fund payment is as follows:

Northwestern Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

NOTE 15 - LONG-TERM LIABILITIES (continued)

Fiscal Year Ending June 30,	Build America Bonds		
	Principal	Interest	Total
2012	\$400,000	\$523,923	\$923,923
2013	300,000	509,933	809,933
2014	300,000	507,496	807,496
2015	250,000	504,571	754,571
2016	250,000	501,321	751,321
2017-2021	1,050,000	2,423,159	3,473,159
2022-2026	700,000	2,260,188	2,960,188
2027-2031	2,660,000	2,031,039	4,691,039
2032-2036	4,295,000	1,276,499	5,571,499
2037-2039	3,035,000	270,359	3,305,359
Totals	<u>\$13,240,000</u>	<u>\$10,808,488</u>	<u>\$24,048,488</u>

On March 31, 2011, the School District sold Qualified School Construction Bonds for a HB 264 Energy Conservation Project in the amount of \$1,385,000. The entire principal is due December 1, 2025. The bonds were sold at a taxable rate of 5.80%. The United States Treasury will issue checks to the School District to pay 5.30% interest. The net interest cost to the School District will be 0.50%. The amortization schedule with net interest and the sinking fund payment is as follows:

Fiscal Year Ending June 30,	Qualified School Construction Bonds – HB 264		
	Principal	Interest	Total
2012	\$90,000	\$4,636	\$94,636
2013	90,000	6,925	96,925
2014	90,000	6,925	96,925
2015	90,000	6,925	96,925
2016	90,000	6,925	96,925
2017-2021	455,000	34,625	489,625
2022-2026	480,000	34,625	514,625
Totals	<u>\$1,385,000</u>	<u>\$101,586</u>	<u>\$1,486,586</u>

Northwestern Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

NOTE 16 – SHORT TERM NOTES

In November, 2009, voters in the School District approved the issuance of bond for the construction of two new school buildings to replace the three buildings currently in use.

On February 18, 2010, the School District issued \$13,240,000 in short term notes. These notes were due December 1, 2010 and were refinanced with Build America Bonds.

A summary of the short-term notes transactions for the fiscal year follows:

	Amount Outstanding 6/30/10	Additions	Deductions	Amount Outstanding 6/30/011	Interest Rate
Governmental Activities					
Building Construction	\$13,240,000	\$0	\$13,240,000	\$0	2.00%
Total	<u>\$13,240,000</u>	<u>\$0</u>	<u>\$13,240,000</u>	<u>\$0</u>	

NOTE 17 - JOINTLY GOVERNED ORGANIZATIONS AND INSURANCE PURCHASING POOL

A. Jointly Governed Organizations

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

The governing board of MVECA consists of three Superintendents and three Treasurers of member school districts, with three of the four Superintendents and all three Treasurers elected by a majority vote of all member school districts except the Greene County Career Center. The fourth Superintendent is from the Greene County Career Center. The School District paid MVECA \$49,913 for services provided during the year.

NOTE 17 - JOINTLY GOVERNED ORGANIZATIONS AND INSURANCE
PURCHASING POOL (continued)

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

Southwestern Ohio Educational Purchasing Council -The Southwestern Ohio Educational Purchasing Council (SOEPC) is a purchasing cooperative made up of nearly 126 school districts in 18 counties. The purpose of the cooperative is to obtain prices for quality merchandise and services commonly used by schools. All member districts are obligated to pay all fees, charges, or other assessments as established by the SOEPC.

One year prior notice is necessary for withdrawal from the group. During this time, the withdrawing member is liable for all member obligations. Payments to SOEPC are made from the General Fund. During the fiscal year, the School District paid its medical, dental and vision insurances through the SOEPC. To obtain financial information, write to the Southwestern Ohio Educational Purchasing Cooperative, Ken Swink, who serves as Director, at 303 Corporate Center Dr., Vandalia, Ohio 45373.

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

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

All member districts are obligated to pay all fees, charges, or other assessments as established by the SOITA. Upon dissolution, the net assets shall be distributed to the federal government, or to a state or local government, for a public purpose. Payments to SOITA are made from the General Fund. During the fiscal year, the School District made no payments to SOITA. To obtain financial information, write to the Southwestern Ohio Instructional Technology Association, Larry Pogue, who serves as Director, at 150 East Sixth Street, Franklin, Ohio 45005.

**NOTE 17 - JOINTLY GOVERNED ORGANIZATIONS AND INSURANCE
PURCHASING POOL** (continued)

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

The Board of Trustees is comprised of eighteen representatives of each of the members of the Council, including the Superintendent of the Clark County Educational Service Center, who was appointed by the Superintendents of the Clark County schools. All members are obligated to pay all dues as established by the Council to aid the financing of the operations and programs of the Council.

The Northwestern Local School District does not pay any dues since the Clark County Educational Service Center represents the District. Any member withdrawing from the Council must give one hundred eighty days written notice to the Council after formal action of the member's governing board. To obtain financial information, write to the Clark County Family and Children First Council, Marilyn Demma, who serves as Treasurer, at 1345 Lagonda Avenue, Springfield, Ohio 45502.

B. Insurance Purchasing Pool

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

Northwestern Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

NOTE 18 - CONTINGENCIES

Grants

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

NOTE 19 - SET-ASIDE CALCULATIONS AND FUND RESERVES

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

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

	<u>Textbooks</u>	<u>Capital Acquisition</u>	<u>Budget Stabilization</u>
Set-aside Cash Balance as of June 30, 2010	(\$448,715)	\$0	\$39,318
Current Year Set-aside Requirement	304,123	304,123	0
Current Year Offsets	0	(989,095)	0
Qualifying Disbursements	<u>(164,186)</u>	<u>(47,877)</u>	<u>0</u>
Totals	<u>(308,778)</u>	<u>(732,849)</u>	<u>39,318</u>
Balance Carried Forward to Fiscal Year 2012	<u>0</u>	<u>(684,972)</u>	<u>0</u>
Restricted Cash as of June 30, 2011	<u>\$0</u>	<u>\$0</u>	<u>\$39,318</u>

Northwestern Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

NOTE 19 - SET-ASIDE CALCULATIONS AND FUND RESERVES (continued)

During fiscal year 2011, the School District utilized the tax receipts recorded in the Debt Service fund as an offset to the capital spending requirement. These tax receipts are used to repay the debt issued to finance school construction projects, and may be carried forward to offset future year's capital acquisition set-aside requirement.

For fiscal year 2012, legislation removed the requirement to calculate this amount further. For the capital acquisition set aside, the School District will need to set aside the calculated amount and spend the money down from a specific fund. Once those funds are spent, then no more is required to be spent from that fund.

NOTE 20 - CHANGE IN ACCOUNTING PRINCIPLE

The School District implemented GASB 54, *Fund Balance Reporting and Governmental Fund Definitions*, during the fiscal year. The Auditor of State has issued a technical bulletin that addresses the classification of funds under GASB 54. Several of the School District's funds are required, per the bulletin, to be mapped into the General fund. The impact of that Auditor of State guidance is detailed in the table below.

	General	Debt Service	Non-Major Funds
Fund Balance, 6/30/10	\$2,494,296	\$104,867	\$571,934
GASB 54 Implementation	16,455	0	(16,455)
Restated Fund Balance, 7/01/10	\$2,510,751	\$104,867	\$555,479

In addition the fiscal year 2011 General Fund budgetary statement beginning balance and prior year encumbrances were adjusted. As a result, beginning General Fund budgetary balance decreased by \$738,933 to a restated balance of \$2,488,214.

Northwestern Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

NOTE 21 – CONTRACTUAL COMMITMENTS

The School District had major outstanding contracts related to school construction. The following estimated amounts remain on these contracts as of June 30:

STAN Engineering	Commissioning Agent	\$95,435
SHP	Architectural Services	1,127,699
Kleinger & Assoc	Flood/Bridge Study	4,655
Kleinger & Assoc	Route 41 Study	3,900
Project Mgt Consultants	Mediation Services	5,400
Traffic Engineering Services	Traffic Study	1,000
Key Blue Prints	Blue Prints	46,500
Energy Optimizers USA	Maint Plan Agreement	22,961
Clark Co Com Develop	Permit Fees	148,136

NOTE 22 - FUND BALANCE ALLOCATION

The School District has chosen to present to the consolidated summary of fund balance classification on the financial statements. The detail of those fund balance classifications are outlined below:

Fund Balances:	General	Debt Service	Classroom Facilities	Non-Major Funds
Nonspendable:				
Inventory	\$32,672	\$0	\$0	\$6,503
Prepays	2,944	0	0	0
Endowments	0	0	0	4,000
Restricted for:				
Debt Service	0	729,942	0	0
Capital Improvements	0	0	29,920,907	1,912,208
Endowments	0	0	0	1,355
Food Service	0	0	0	44,988
District Activities	0	0	0	67,449
Grants	0	0	0	236
Statutory Reserves	39,318	0	0	0
Committed for:				
Latchkey Programs	0	0	0	95,837
Assigned to:				
Encumbrances	194,988	0	0	0
Unassigned	3,063,809	0	0	(48,450)
Total Fund Balances	\$3,333,731	\$729,942	\$29,920,907	\$2,084,126

Northwestern Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

NOTE 23 – INTERFUND TRANSACTIONS

The General fund transferred \$110,721 to finance various programs accounted for in other funds in accordance with budgetary authorization. In addition, the School District transferred long term debt proceeds of \$13,395,437 from the Debt Service fund to the Classroom Facilities fund, which is the fund that will incur the expenditures associated with the purpose of the debt issuance.

Northwestern Local School District
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2011

<u>Federal Grantor/Program Title</u>	<u>Pass Through Entity Number</u>	<u>Federal CFDA Number</u>	<u>Award Receipts</u>	<u>Award Disbursements</u>
U.S. DEPARTMENT OF AGRICULTURE				
<i>Passed Through Ohio Department of Education:</i>				
Child Nutrition Cluster				
Cash Assistance				
National School Lunch Program	LL-P4	10.555	<u>213,751</u>	<u>213,751</u>
Total U.S. Department of Agriculture			<u>213,751</u>	<u>213,751</u>
U.S. DEPARTMENT OF EDUCATION				
<i>Passed Through Ohio Department of Education:</i>				
Title I Cluster				
Title I Grant	C1-S1	84.010	254,245	224,171
Title I Grant - ARRA	C1-S1	84.389	<u>69,748</u>	<u>87,233</u>
Total Title I Cluster			<u>323,993</u>	<u>311,404</u>
Special Education Cluster:				
IDEA B	6B-SF	84.027	349,680	343,237
IDEA B - ARRA	6B-SF	84.391	53,377	37,303
IDEA Preschool	6B-SF	84.173	11,852	11,971
IDEA Preschool - ARRA	PG-S1	84.392	<u>7,877</u>	<u>7,941</u>
Total Special Education Cluster			<u>422,786</u>	<u>400,452</u>
Title II-D - Technology	TJ-S1	84.318	3,679	2,681
Improving Teacher Quality	CR-S1	84.367	116,883	109,241
Safe and Drug Free Schools	DR-S1	84.186	2,158	2,008
State Fiscal Stabilization Fund - ARRA	NA	84.394	<u>497,930</u>	<u>457,671</u>
Total Passed Through Ohio Department of Education			<u>1,363,750</u>	<u>1,283,457</u>
Total U.S. Department of Education			<u>1,363,750</u>	<u>1,283,457</u>
TOTAL FEDERAL AWARD EXPENDITURES			\$ <u>1,577,501</u>	\$ <u>1,497,208</u>

See accompanying notes to the Schedule of Expenditures of Federal Awards.

Northwestern Local School District
Notes to the Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2011

NOTE A – SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B – U.S. DEPARTMENT OF AGRICULTURE PROGRAMS

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

NOTE C – MATCHING REQUIREMENTS

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

**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***

Board of Education
Northwestern Local School District
5610 Troy Road
Springfield, Ohio 45502

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Northwestern Local School District (the District), as of and for the year ended June 30, 2011, which collectively comprise the District's basic financial statements and have issued our report thereon dated December 20, 2011, wherein we noted the District adopted the provisions of Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified a deficiency in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs as finding 2011-001 that we consider to be a significant deficiency in internal control over financial reporting. 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.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The District's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the District's response and, accordingly, we express no opinion on it.

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

Clark, Schaefer, Hackett & Co.

Springfield, Ohio
December 20, 2011

Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133

Board of Education
Northwestern Local School District
5610 Troy Road
Springfield, Ohio 45502

Compliance

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

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the District's compliance with those requirements.

In our opinion, the District complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, 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 items 2011-002, 2011-003, 2011-004, 2011-005.

Internal Control Over Compliance

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program

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to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies as described in the accompanying schedule of findings and questioned costs as items 2011-002, 2011-003, 2011-004, 2011-005. 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.

The District's response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the District's responses and, accordingly, we express no opinion on the responses.

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

Clark, Schaefer, Hackett & Co.

Springfield, Ohio
December 20, 2011

**Northwestern Local School District
 Schedule of Findings and Questioned Costs
 Fiscal Year Ended June 30, 2011**

Section I – Summary of Auditors’ Results

Financial Statements

Type of auditors’ report issued:	Unqualified
Internal control over financial reporting:	
• Material weakness(es) identified?	None noted
• Significant deficiency(ies) identified not considered to be material weakness(es)?	Yes
Noncompliance material to financial statements noted?	None noted

Federal Awards

Internal control over major programs:	
• Material weakness(es) identified?	None noted
• Significant deficiency(ies) identified not considered to be material weakness(es)?	Yes

Type of auditors’ report issued on compliance for major programs: Unqualified

Any audit findings that are required to be reported in accordance with 510(a) of Circular A-133? Yes

Identification of major programs:

- Title I Cluster*
- CFDA 84.010 – Title I
- CFDA 84.389 – Title I - ARR
- State Fiscal Stabilization Fund – ARRA
- CFDA 84.394

Dollar threshold to distinguish between Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee? No

Section II – Financial Statement Findings

2011-001 – Internal Controls Financial Reporting

The District contracts with outside professional assistance for financial statement preparation in conformity with accounting principles generally accepted in the United States of America (GAAP). However, management of the District is ultimately responsible for the presentation of the financial statements.

Current audit adjustments indicate internal controls over financial reporting are not operating effectively to prevent errors and omissions from going undetected by the District or its agent during the process of preparing its annual financial statements. During the current audit, audit adjustments were required to properly report intergovernmental receivables, deferred revenue and intergovernmental revenue.

The District should develop internal controls to, at a minimum, correct the weakness noted above. The District should also put monitoring procedures in place to ensure the controls are operating effectively.

Management Response:

The District is ultimately responsible for this issue. Procedures have been implemented to correct the control deficiency noted above. This includes making the contracted firm aware of this issue and setting expectation for it to be corrected in the future.

Section III – Federal Awards Findings and Questioned Costs

Finding 2011-002 – Noncompliance – State Fiscal Stabilization – ARRA – CFDA 84.394

Criteria: 34 CFR 80.20 (b)(7) requires that when advances are made by letter-of-credit or electronic transfer of funds methods, the grantee must make draw downs as close as possible to the time of making disbursements. The District received bi-monthly advance payments of State Fiscal Stabilization funds from the Ohio Department of Education foundation program.

Condition: Through November of the fiscal year ending June 30, 2011, the District maintained a cash balance indicating that funds were not spent timely.

Cause: The District did not implement procedures to ensure advance payments were spent timely.

Effect: The failure to spend federal money in a timely manner could result in loss of funding or other actions by the awarding agency.

Management Response:

This requirement is nearly impossible to follow. These funds were sent automatically as part of the school foundation payment on a semi-monthly basis. The funds were used for salaries for teachers with contracts beginning in late August. It is neither possible, nor logical to expect these funds to be expended before the teaching contract was even started.

Finding 2011-003: Noncompliance – State Fiscal Stabilization – ARRA – CFDA No. 84.394

Criteria: American Recovery and Reinvestment Act of 2009 (ARRA), section 1512 (b) & (c) requires any entity that receives certain Recovery funds directly from the Federal Government to submit to the Federal Agency no later than 10 days after the end of each calendar quarter in which the Federal Recovery funds were received. The Ohio Department of Education's American Recovery and Reinvestment Act Reporting Guidance states that Ohio Department of Education (ODE), as a prime recipient of ARRA funding, is required to report quarterly to the federal government data on ARRA programs. The District did not receive direct ARRA funding. However, the ODE's reporting guidance indicates that ODE distributes ARRA funds to local education agencies (LEAs) as subrecipients and

must collect quarterly data from LEAs to meet the 1512 reporting requirements associated with ARRA funding. Thus, the 1512 reporting requirements filter down to the District and the District is required to report certain information to ODE. Among the items to be reported, the FTE positions saved or created from ARRA grant funding during each quarter.

Condition: During the audit, the District did not correctly report to ODE two quarters that paid for salary and benefits that should be counted as full time equivalencies (FTE) on the 1512 ARRA Subrecipient FTE report.

Cause: A discrepancy was noted for two quarters in the number of FTEs reported to ODE and the number of employees per the District records for the State Fiscal Stabilization grant. The District did not implement procedures to ensure that all FTEs were reported on the ODE 1512 ARRA Subrecipient FTE report on a quarterly basis.

Effect: Failure to properly report in accordance with program requirements could result in loss of funding or other actions by the awarding agency.

Recommendation: We recommend the District implement procedures to ensure that all FTEs are reported on the ODE 1512 ARRA Subrecipient FTE report to comply with federal regulations.

Management Response:

The District attempted to follow reporting requirements as directed by the Ohio Department of Education (ODE) at the time of reporting. The ODE changed directions on reporting requirements during the year. A report may appear to be in error based on later ODE directions, but could have been properly reported on the date the report was filed.

Finding 2011-004: Noncompliance – Title I and Title I ARRA – CFDA No. 84.010 and 84.389

Criteria: OMB Circular A-87 requires employees who work solely on a single cost objective (grant) must furnish a semi-annual certification that he/she has been engaged solely in activities that support the single cost objective. In addition, employees who work in part on a single cost objective and in part on activities funded from other revenue sources must maintain time and effort distribution records.

Condition: The District did not have records supporting the time and effort of employees not engaged solely on a single cost objective and did not obtain semi-annual certifications from employees who were engaged solely in activities that support the Title I program.

Cause: The District corrected the lack of certifications for prior years but did not obtain the certifications for fiscal year 2011.

Effect: Failure to comply with OMB Circular A-87 could result in the loss of funding or other actions by the awarding agency.

Recommendation: The District should implement procedures to ensure compliance with the time and effort and semi-annual certification requirements.

Management Response:

The District has implemented procedures to correct the control deficiency noted above.

Finding 2011-005: Noncompliance – Title I and Title I ARRA – CFDA No. 84.010 and 84.389

Criteria: OMB Circular A-133 states that Title I, Part A funds are to be used to provide services and benefits to eligible children residing or enrolled in eligible school attendance areas. Once funds are allocated to eligible school attendance areas, a school operating a targeted assistance program must use Title I funds only for programs that are designed to meet the needs of children identified by the school as failing, or most at risk of failing, to meet the State's challenging student academic

achievement standards. In general, eligible children are identified on the basis of multiple, educationally related, objective criteria established by the LEA and supplemented by the school.

Condition: During our tests of compliance with this requirement for the Title I program, it was noted that two students selected for testing did not have documentation supporting their eligibility to participate in the targeted assistance afterschool program.

Cause: Proper documentation was not maintained to substantiate the enrolled students met program requirements.

Effect: Failure to comply with OMB Circular A-133 could result in the loss of funding or other actions by the awarding agency.

Recommendation: We recommend that procedures be put in place to ensure that the appropriate eligibility documentation is acquired and maintained by the District.

Management Response:

The superintendent, building principal, and curriculum director have been notified of this problem. They will be developing procedures to avoid this problem in the future.

Section IV – Summary of Prior Audit Findings and Questioned Costs

Finding 2010-001: District did not properly report Classroom Facilities fund as a major fund.
Corrected

INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING AGREED-UPON PROCEDURES

To the Board of Education
Northwestern Local School District:

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

1. We noted the Board amended its anti-harassment policy at its meeting on December 16, 2010, to include violence within a dating relationship within its definition of harassment, intimidation or bullying.

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

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

Clark, Schaefer, Hackett & Co.

Springfield, Ohio
December 20, 2011

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Dave Yost • Auditor of State

NORTHWESTERN LOCAL SCHOOL DISTRICT

CLARK COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
FEBRUARY 16, 2012**