

Northwest Local School District

Scioto County, Ohio

Single Audit

July 1, 2006 Through June 30, 2007

Fiscal Year Audited Under GAGAS: 2007

**BALESTRA, HARR & SCHERER, CPAs, Inc.**

528 S. WEST STREET, P.O. Box 687  
PIKETON, OHIO 45661

TELEPHONE (740) 289-4131

FAX (740) 289-3639

[www.bhscpas.com](http://www.bhscpas.com)





Mary Taylor, CPA  
Auditor of State

Members of the Board  
Northwest Local School District  
800 Mohawk Drive  
McDermott, Ohio 45652

We have reviewed the *Independent Auditor's Report* of the Northwest Local School District, Scioto County, prepared by Balestra, Harr & Scherer, CPAs, Inc., for the audit period July 1, 2006 through June 30, 2007. 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 Northwest Local School District is responsible for compliance with these laws and regulations.

*Mary Taylor*

Mary Taylor, CPA  
Auditor of State

January 24, 2008

**This Page is Intentionally Left Blank.**

**Northwest Local School District**  
*Scioto County, Ohio*

*Table of Contents*

Independent Auditor’s Report.....	1
Management’s Discussion and Analysis.....	3
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Assets .....	9
Statement of Activities .....	10
Fund Financial Statements:	
Balance Sheet – Governmental Funds.....	11
Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities .....	12
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds.....	13
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities .....	14
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual (Budgetary Basis) – General Fund.....	15
Statement of Fiduciary Net Assets – Fiduciary Funds .....	16
Statement of Changes in Fiduciary Net Assets – Fiduciary Funds .....	17
Notes to the Basic Financial Statements.....	18
Schedule of Federal Awards Expenditures .....	39
Notes to Schedule of Federal Awards Expenditures .....	40
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i> .....	41
Report on Compliance With Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance With OMB Circular A-133.....	43
Schedule of Findings and Questioned Costs OMB Circular A-133 §.505 .....	45

**This Page is Intentionally Left Blank.**

BALESTRA, HARR & SCHERER, CPAs, INC.  
528 South West Street, P.O. Box 687  
Piketon, Ohio 45661

---

Telephone (740) 289-4131  
Fax (740) 289-3639  
[www.bhscpas.com](http://www.bhscpas.com)

Member American Institute of Certified Public Accountants

Ohio Society of Certified Public Accountants

**Independent Auditor's Report**

Members of the Board  
Northwest Local School District  
800 Mohawk Drive  
McDermott, OH 45652

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Northwest Local School District (the School District), Scioto County, as of and for the year ended June 30, 2007, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

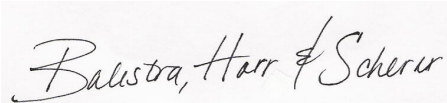
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the School District, as of June 30, 2007, and the respective changes in financial position and the budgetary comparison for the general fund, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 28, 2007 on our consideration of the School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal controls over financial reporting and compliance and the results of that testing, and not to provide an opinion of the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 through 8 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the School District's basic financial statements. The accompanying Schedule of Federal Awards Expenditures is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information 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.

A handwritten signature in cursive script that reads "Balestra, Harr & Scherer". The signature is written in black ink on a light-colored background.

Balestra, Harr & Scherer, CPAs, Inc.  
December 28, 2007



Northwest Local School District  
Scioto County, Ohio  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2007  
Unaudited

---

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

The Northwest Local School District's (the "School District") discussion and analysis of the annual financial report provides a review of the financial performance for the fiscal year ended June 30, 2007. 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**

- The School District's assets exceeded its liabilities at June 30, 2007 by \$29,939,456.
- The School District's net assets of governmental activities increased \$2,777,764.
- General revenues accounted for \$14,536,054 or 75 percent of all revenues. Program specific revenues in the form of charges for services and sales, operating grants and contributions accounted for \$4,829,000 or 25 percent of total revenues of \$19,365,054.
- The School District had \$16,587,290 in expenses related to governmental activities; \$4,829,000 of these expenses was offset by program specific charges for services and sales, and operating grants and contributions.

**USING THIS ANNUAL FINANCIAL REPORT**

This annual report consists of a series of financial statements. These statements are presented so that the reader can understand the Northwest Local School District's financial situation as a whole and also give a detailed view of the School District's financial activities.

The Statement of Net Assets and Statement of Activities provide information about the activities of the School District as a whole and present a longer-term view of the School District's finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as the amount of funds available for future spending. The fund financial statements also look at the School District's most significant funds with all other non-major funds presented in total in one column.

**REPORTING THE SCHOOL DISTRICT AS A WHOLE**

The analysis of the School District as a whole begins with the Statement of Net Assets and the Statement of Activities. These statements provide information that will help the reader to determine whether the School District is financially improving or declining as a result of the year's financial activities. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by private sector companies. All current year revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the School District's net assets and changes to those assets. This change informs the reader whether the School District's financial position, as a whole, has improved or diminished. In evaluating the overall financial health, the user of these financial statements needs to take into account non-financial factors that also impact the School District's financial well-being. Some of these factors include the condition of capital assets, and required educational support services to be provided.

In the Statement of Net Assets and the Statement of Activities, the School District has only one kind of activity.

- Governmental Activities. Most of the School District's programs and services are reported here including instruction and support services.

Northwest Local School District  
Scioto County, Ohio  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2007  
Unaudited

---

**REPORTING THE SCHOOL DISTRICT'S MOST SIGNIFICANT FUNDS**

**Fund Financial Statements**

The analysis of the School District's funds begins on page 7. Fund financial statements provide detailed information about the School District's major funds – not the School District as a whole. Some funds are required by State law and bond covenants. Other funds may be established by the Treasurer with approval from the Board to help control, manage and report money received for a particular purpose or to show that the School District is meeting legal responsibilities for use of grants. The School District's major funds are the General Fund and the Classroom Facilities Fund.

**Governmental Funds**

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

**Fiduciary Funds**

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds, and agency funds. The School District's fiduciary funds are agency funds and private purpose trust funds. Trust funds are used to account for assets held by the School District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the School District's own programs. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. In accordance with GASB 34, fiduciary funds are not included in the government-wide statements.

The School District's fiduciary funds are agency funds which are used to maintain financial activity of the School District's Student Managed Activities, and private purpose trust funds which are used to maintain the financial activity of the School District's Scholarship Funds.

Northwest Local School District  
 Scioto County, Ohio  
 Management's Discussion and Analysis  
 For the Fiscal Year Ended June 30, 2007  
 Unaudited

---

**THE SCHOOL DISTRICT AS A WHOLE**

As stated previously, the Statement of Net Assets provides the perspective of the School District as a whole. Table 1 provides a summary of the School District's net assets for 2007 compared to 2006.

Table 1  
 Net Assets

	2007	2006
Assets:		
Current and Other Assets	\$ 15,385,578	\$ 19,619,517
Capital Assets, Net	25,820,699	19,482,412
Total Assets	41,206,277	39,101,929
Liabilities:		
Current and Other Liabilities	5,990,861	6,194,190
Long-Term Liabilities	5,275,960	5,746,047
Total Liabilities	11,266,821	11,940,237
Net Assets:		
Invested in Capital Assets, Net of Related Debt	22,239,707	17,544,018
Restricted	7,277,093	13,864,324
Unrestricted	422,656	(4,246,650)
Total Net Assets	\$ 29,939,456	\$ 27,161,692

Total net assets of the District as a whole increased \$2,777,764. Total net assets increased primarily due to a significant increase in construction in progress due to the Classroom Facilities Project.

Northwest Local School District  
Scioto County, Ohio  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2007  
Unaudited

Table 2 shows the changes in net assets for the fiscal years ended June 30, 2007 and 2006.

Table 2  
Change in Net Assets

	<u>2007</u>	<u>2006</u>
Revenues		
Program Revenues:		
Charges for Services and Sales	\$ 526,440	\$ 460,349
Operating Grants & Contributions	4,302,560	3,956,439
Total Program Revenues	<u>4,829,000</u>	<u>4,416,788</u>
General Revenues:		
Taxes Levied for:		
General Purposes	1,518,509	1,532,629
Debt Service	312,438	313,554
Capital Maintenance	30,863	31,820
Grants and Entitlements, Not Restricted to Specific Programs	9,626,643	9,402,518
Grants and Entitlements, Restricted for Classroom Facilities Project	2,697,389	10,583,217
Gifts and Donations, Not Restricted to Specific Programs	1,000	3,398
Investment Earnings	339,895	268,339
Miscellaneous	369	506
Gain on Sale of Capital Assets	8,948	4,918
Total General Revenues	<u>14,536,054</u>	<u>22,140,899</u>
Total Revenues	19,365,054	26,557,687
Program Expenses		
Instruction		
Regular	7,264,714	6,672,835
Special	1,227,176	1,417,472
Vocational	65,660	60,027
Adult/Continuing	13,724	12,147
Other	501,690	399,253
Support Services		
Pupils	667,535	568,923
Instructional Staff	1,123,917	1,081,805
Board of Education	71,295	38,836
Administration	992,322	1,112,732
Fiscal	304,177	285,138
Operation and Maintenance of Plant	1,782,906	1,572,624
Pupil Transportation	1,327,227	1,272,127
Central	31,350	59,457
Operation of Non-Instructional Services	654,388	703,598
Extracurricular Activities	347,586	386,855
Interest and Fiscal Charges	211,623	227,543
Total Expenses	<u>16,587,290</u>	<u>15,871,372</u>
Increase in Net Assets	2,777,764	10,686,315
Net Assets at Beginning of Year	27,161,692	16,475,377
Net Assets at End of Year	<u>\$ 29,939,456</u>	<u>\$ 27,161,692</u>

The School District experienced a 5% enrollment increase from 2006 to 2007, thus increasing grant monies and instruction and support services expenses.

Northwest Local School District  
Scioto County, Ohio  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2007  
Unaudited

**Governmental Activities**

Grants and Entitlements, Not Restricted to Specific Programs comprised 50 percent of revenue for governmental activities, while operating grants and contributions comprised 22 percent of revenue for governmental activities, and Grants and Entitlements, restricted for Classroom Facilities Project comprised 14 percent of revenue for governmental activities of the School District for fiscal year 2007.

As indicated by governmental program expenses, instruction is emphasized. Regular Instruction comprised 44 percent of governmental program expenses with Special Instruction comprising 7 percent of governmental expenses.

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

Table 3  
Total and Net Cost of Program Services  
Governmental Activities

	Total Cost of Services		Net Cost of Services	
	2007	2006	2007	2006
Instruction	\$9,072,964	\$8,561,734	\$6,996,804	\$6,676,658
Support Services	6,300,729	5,991,642	4,612,927	4,606,122
Operation of Non-Instructional Services	654,388	703,598	(99,913)	(108,244)
Extracurricular Activities	347,586	386,855	70,824	88,432
Interest and Fiscal Charges	211,623	227,543	177,648	191,616
<b>Total Expenses</b>	<b>\$16,587,290</b>	<b>\$15,871,372</b>	<b>\$11,758,290</b>	<b>\$11,454,584</b>

**THE SCHOOL DISTRICT'S FUNDS**

Governmental funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues and other financing sources of \$21,585,456 and expenditures and other financing uses of \$23,465,871. The net change in fund balance for the year was most significant in the Classroom Facilities Fund.

The fund balance of the Classroom Facilities Fund decreased by \$1,871,589. This decrease was primarily due to spending of grant monies that were received in the prior fiscal year for the classroom facilities project.

The fund balance of the General Fund decreased by \$145,638.

**General Fund Budgeting Highlights**

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

During 2007, there were several revisions to the General Fund budget. In part, these revisions increased appropriations by \$243,636 and increased the estimated receipts by \$18,466. The Treasurer has been given the authority by the Board of Education to make line item adjustments within the budget. The General fund's ending unobligated cash balance was \$3,217,656.

Northwest Local School District  
 Scioto County, Ohio  
 Management's Discussion and Analysis  
 For the Fiscal Year Ended June 30, 2007  
 Unaudited

---

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital Assets**

At the end of fiscal year 2007, the School District had \$25,820,699 invested in its capital assets. Table 4 shows the fiscal year 2007 balances compared to 2006.

Table 4  
 Capital Assets  
 (Net of Accumulated Depreciation)

	Governmental Activities	
	2007	2006
Land	\$ 208,730	\$ 189,530
Construction in Progress	11,216,280	4,305,118
Land Improvements	284,412	327,358
Buildings and Improvements	12,191,605	12,705,127
Furniture and Equipment	1,062,794	1,173,797
Vehicles	720,149	632,858
Textbooks	136,729	148,624
	\$ 25,820,699	\$ 19,482,412

Changes in capital assets from the prior year resulted from the addition of land, construction in progress, furniture and equipment, vehicles, and depreciation expense. See Note 7 to the basic financial statements for more detailed information related to capital assets.

**Debt**

At June 30, 2007, the School District had School Facilities General Obligations Refunding Bonds outstanding of \$1,772,195. The bonds were issued for school construction. The District also had capital lease obligations outstanding of \$2,566,000. See Note 13 to the basic financial statements for more detailed information regarding debt.

**CONTACTING THE SCHOOL DISTRICT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, creditors, and investors with a general overview of the School District's financial condition and to show the School District's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Karen Morrow, Treasurer, Northwest Local School District, 800 Mohawk Drive, McDermott, Ohio 45652.

**Northwest Local School District**  
**Statement of Net Assets**  
**June 30, 2007**

	<b>Governmental Activities</b>
<b>ASSETS:</b>	
Equity in Pooled Cash and Cash Equivalents	\$ 7,499,060
Cash and Cash Equivalents with Fiscal Agents	2,385,524
Accounts Receivable	1,050
Intergovernmental Receivable	3,098,630
Taxes Receivable	2,270,248
Restricted Assets:	
Equity in Pooled Cash and Cash Equivalents	131,066
Non-Depreciable Capital Assets	11,425,010
Depreciable Capital Assets, net	14,395,689
<i>Total Assets</i>	41,206,277
<b>LIABILITIES:</b>	
Accounts Payable	18,385
Accrued Wages and Benefits	1,490,840
Contracts Payable	2,016,341
Intergovernmental Payable	473,390
Accrued Interest Payable	6,373
Retainage Payable	43,837
Deferred Revenue	1,941,695
Long-Term Liabilities:	
Due Within One Year	464,476
Due in More Than One Year	4,811,484
<i>Total Liabilities</i>	11,266,821
<b>NET ASSETS:</b>	
Invested in Capital Assets, Net of Related Debt	22,239,707
Restricted for Debt Service	808,510
Restricted for Capital Outlay	6,273,257
Restricted for Other Purposes	108,097
Restricted for Set-Asides	87,229
Unrestricted	422,656
<i>Total Net Assets</i>	\$ 29,939,456

The notes to the basic financial statements are an integral part of this statement.

**Northwest Local School District**  
**Statement of Activities**  
**For the Fiscal Year Ended June 30, 2007**

	<u>Program Revenues</u>			<u>Net(Expense) Revenue and Changes in Net Assets</u>
	<u>Expenses</u>	<u>Charges for Services and Sales</u>	<u>Operating Grants and Contributions</u>	
Governmental Activities:				
Instruction:				
Regular	\$ 7,264,714	\$ 63,437	\$ 1,163,935	\$ (6,037,342)
Special	1,227,176	12,577	829,071	(385,528)
Vocational	65,660	807	-	(64,853)
Adult/Continuing	13,724	169	-	(13,555)
Other	501,690	6,164	-	(495,526)
Support Services:				
Pupils	667,535	6,324	135,275	(525,936)
Instructional Staff	1,123,917	6,198	548,887	(568,832)
Board of Education	71,295	876	-	(70,419)
Administration	992,322	11,952	11,633	(968,737)
Fiscal	304,177	3,664	10,622	(289,891)
Operation and Maintenance of Plant	1,782,906	19,528	116,954	(1,646,424)
Pupil Transportation	1,327,227	18,023	789,616	(519,588)
Central	31,350	275	7,975	(23,100)
Operation of Non-Instructional Services	654,388	202,535	551,766	99,913
Extracurricular Activities	347,586	172,338	104,424	(70,824)
Interest and Fiscal Charges	211,623	1,573	32,402	(177,648)
<i>Total Governmental Activities</i>	<u>\$ 16,587,290</u>	<u>\$ 526,440</u>	<u>\$ 4,302,560</u>	<u>(11,758,290)</u>
General Revenues:				
Property Taxes Levied for:				
General Purposes				1,518,509
Capital Maintenance				30,863
Debt Service				312,438
Grants and Entitlements not Restricted to Specific Programs				9,626,643
Grants and Entitlements Restricted for Classroom Facilities				2,697,389
Gifts and Donations not Restricted to Specific Programs				1,000
Investment Earnings				339,895
Gain on Sale of Capital Assets				8,948
Miscellaneous				369
<i>Total General Revenues</i>				<u>14,536,054</u>
<i>Change in Net Assets</i>				2,777,764
<i>Net Assets Beginning of Year</i>				<u>27,161,692</u>
<i>Net Assets End of Year</i>				<u>\$ 29,939,456</u>

The notes to the basic financial statements are an integral part of this statement.



**Northwest Local School District**  
**Balance Sheet**  
**Governmental Funds**  
**June 30, 2007**

	<u>General</u>	<u>Classroom Facilities</u>	<u>All Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>ASSETS:</b>				
Equity in Pooled Cash and Cash Equivalents	\$ 3,176,171	\$ 2,920,660	\$ 1,402,229	\$ 7,499,060
Cash and Cash Equivalents with Fiscal Agents	-	2,385,524	-	2,385,524
Accounts Receivable	1,050	-	-	1,050
Interfund Receivable	74,180	-	-	74,180
Intergovernmental Receivable	-	2,983,414	115,216	3,098,630
Taxes Receivable	1,856,260	-	413,988	2,270,248
Restricted Assets:				
Equity in Pooled Cash and Cash Equivalents	87,229	43,837	-	131,066
<i>Total Assets</i>	<u>5,194,890</u>	<u>8,333,435</u>	<u>1,931,433</u>	<u>15,459,758</u>
<b>LIABILITIES:</b>				
Accounts Payable	18,325	-	60	18,385
Accrued Wages and Benefits	1,163,707	-	327,133	1,490,840
Contracts Payable	-	2,016,341	-	2,016,341
Interfund Payable	-	-	74,180	74,180
Intergovernmental Payable	397,548	-	75,842	473,390
Retainage Payable	-	43,837	-	43,837
Deferred Revenue	1,727,443	2,983,414	430,354	5,141,211
<i>Total Liabilities</i>	<u>3,307,023</u>	<u>5,043,592</u>	<u>907,569</u>	<u>9,258,184</u>
<b>FUND BALANCES:</b>				
Reserved:				
Reserved for Encumbrances	27,832	2,995	5,563	36,390
Reserved for Property Taxes	128,817	-	30,360	159,177
Reserved for Budget Stabilization	87,229	-	-	87,229
Unreserved, Undesignated, Reported in:				
General Fund	1,643,989	-	-	1,643,989
Special Revenue Funds	-	-	236,045	236,045
Debt Service Funds	-	-	751,896	751,896
Capital Projects Funds	-	3,286,848	-	3,286,848
<i>Total Fund Balances</i>	<u>1,887,867</u>	<u>3,289,843</u>	<u>1,023,864</u>	<u>6,201,574</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$ 5,194,890</u>	<u>\$ 8,333,435</u>	<u>\$ 1,931,433</u>	<u>\$ 15,459,758</u>

The notes to the basic financial statements are an integral part of this statement.

**Northwest Local School District**  
**Reconciliation of Total Governmental Fund Balances to**  
**Net Assets of Governmental Activities**  
**June 30, 2007**

---

**Total Governmental Fund Balances** \$ 6,201,574

*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. 25,820,699

Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds.

Taxes	143,906	
Intergovernmental	3,055,610	

Total 3,199,516

Long-Term Liabilities, including bonds, capital lease obligations, and the long-term portion of compensated absences are not due and payable in the current period and therefore are not reported in the funds.

Compensated Absences	(937,765)	
Accrued Interest Payable	(6,373)	
Capital Lease Obligations	(2,566,000)	
General Obligation Bonds	(1,772,195)	

Total (5,282,333)

**Net Assets of Governmental Activities** \$ 29,939,456

The notes to the basic financial statements are an integral part of this statement.

**Northwest Local School District**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Governmental Funds**  
**For the Fiscal Year Ended June 30, 2007**

	<u>General</u>	<u>Classroom Facilities</u>	<u>All Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>REVENUES:</b>				
Property Taxes	\$ 1,526,832	\$ -	\$ 345,186	\$ 1,872,018
Intergovernmental	11,065,449	4,884,706	2,814,264	18,764,419
Interest	213,107	117,805	8,983	339,895
Tuition and Fees	12,513	-	-	12,513
Rent	44,891	-	-	44,891
Extracurricular Activities	-	-	169,709	169,709
Gifts and Donations	1,000	-	2,764	3,764
Customer Sales and Services	96,809	-	202,518	299,327
Miscellaneous	369	-	-	369
<i>Total Revenues</i>	<u>12,960,970</u>	<u>5,002,511</u>	<u>3,543,424</u>	<u>21,506,905</u>
<b>EXPENDITURES:</b>				
<b>Current:</b>				
<b>Instruction:</b>				
Regular	5,170,893	-	1,305,713	6,476,606
Special	1,001,999	-	214,318	1,216,317
Vocational	64,864	-	-	64,864
Adult/Vocational	13,724	-	-	13,724
Other	501,690	-	-	501,690
<b>Support Services:</b>				
Pupils	531,488	-	151,906	683,394
Instructional Staff	499,440	-	619,445	1,118,885
Board of Education	71,295	-	-	71,295
Administration	1,079,370	-	31,002	1,110,372
Fiscal	300,470	-	8,567	309,037
Operation and Maintenance of Plant	1,599,299	-	113,271	1,712,570
Pupil Transportation	1,459,756	-	-	1,459,756
Central	22,523	-	9,000	31,523
Operation of Non-Instructional Services	1,360	-	649,810	651,170
Extracurricular Activities	213,999	-	117,847	331,846
Capital Outlay	228,623	6,874,100	-	7,102,723
<b>Debt Service:</b>				
Principal	167,000	-	225,000	392,000
Interest	128,020	-	25,406	153,426
<i>Total Expenditures</i>	<u>13,055,813</u>	<u>6,874,100</u>	<u>3,471,285</u>	<u>23,401,198</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(94,843)</u>	<u>(1,871,589)</u>	<u>72,139</u>	<u>(1,894,293)</u>
<b>OTHER FINANCING SOURCES AND USES:</b>				
Transfers In	-	-	64,673	64,673
Proceeds from Sale of Assets	13,878	-	-	13,878
Transfers Out	(64,673)	-	-	(64,673)
<i>Total Other Financing Sources and Uses</i>	<u>(50,795)</u>	<u>-</u>	<u>64,673</u>	<u>13,878</u>
<i>Net Change in Fund Balances</i>	(145,638)	(1,871,589)	136,812	(1,880,415)
<i>Fund Balances at Beginning of Year</i>	<u>2,033,505</u>	<u>5,161,432</u>	<u>887,052</u>	<u>8,081,989</u>
<i>Fund Balances at End of Year</i>	<u>\$ 1,887,867</u>	<u>\$ 3,289,843</u>	<u>\$ 1,023,864</u>	<u>\$ 6,201,574</u>

The notes to the basic financial statements are an integral part of this statement.

**Northwest Local School District**  
**Reconciliation of the Statement of Revenues, Expenditures and Changes**  
**in Fund Balances of Governmental Funds to the Statement of Activities**  
**For the Fiscal Year Ended June 30, 2007**

**Net Change in Fund Balances - Total Governmental Funds** \$ (1,880,415)

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

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

Capital Asset Additions	7,177,539	
Current Year Depreciation	(834,322)	
Total		6,343,217

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

Proceeds from Sale of Capital Assets	(13,878)	
Gain on Sale of Capital Assets	8,948	
Total		(4,930)

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

Taxes	(35,678)	
Intergovernmental	(2,115,121)	
Total		(2,150,799)

Repayments of bond principal are expenditures in the governmental funds, but the repayment reduces liabilities in the statement of net assets and does not result in an expense in the statement of activities.

225,000

Repayments of capital leases obligations are expenditures in the governmental funds, but the repayment reduces liabilities in the statement of net assets and does not result in an expense in the statement of activities.

167,000

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

Decrease in Compensated Absences	136,888	
Decrease in Accrued Interest	604	
Increase in Accreted Debt	(58,801)	

Total		78,691
-------	--	--------

**Net Change in Net Assets of Governmental Activities** **\$ 2,777,764**

The notes to the basic financial statements are an integral part of this statement.

**Northwest Local School District**  
**Statement of Revenues, Expenditures and Changes**  
**In Fund Balance - Budget and Actual (Budgetary Basis)**  
**General Fund**  
**For the Fiscal Year Ended June 30, 2007**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Total Revenues and Other Financing Sources	\$ 13,696,176	\$13,714,642	\$ 12,941,365	\$ (773,277)
Total Expenditures and Other Financing Uses	<u>12,952,369</u>	<u>13,196,005</u>	<u>13,148,061</u>	<u>47,944</u>
Net Change in Fund Balance	743,807	518,637	(206,696)	(725,333)
Fund Balance at Beginning of Year	3,352,467	3,352,467	3,352,467	-
Prior Year Encumbrances Appropriated	<u>71,885</u>	<u>71,885</u>	<u>71,885</u>	<u>-</u>
Fund Balance at End of Year	<u>\$ 4,168,159</u>	<u>\$ 3,942,989</u>	<u>\$ 3,217,656</u>	<u>\$ (725,333)</u>

The notes to the basic financial statements are an integral part of this statement.

**Northwest Local School District**  
**Statement of Fiduciary Net Assets**  
**Fiduciary Funds**  
**June 30, 2007**

---

	<b>Private Purpose Trust Fund</b>	<b>Agency Fund</b>
	<u>          </u>	<u>          </u>
<b>ASSETS:</b>		
Equity in Pooled Cash and Cash Equivalents	\$ 29,678	\$ 20,128
	<u>          </u>	<u>          </u>
<b>LIABILITIES:</b>		
Undistributed Monies	-	\$ 20,128
		<u>          </u>
<b>NET ASSETS:</b>		
Held in Trust for Scholarships	29,678	
Total Net Assets	<u>\$ 29,678</u>	

The notes to the basic financial statements are an integral part of this statement.

**Northwest Local School District**  
**Statement of Changes in Fiduciary Net Assets**  
**Fiduciary Funds**  
**For the Fiscal Year Ended June 30, 2007**

---

	<b>Private Purpose Trust</b>
	<u>          </u>
ADDITIONS:	
Gifts and Contributions	\$ 5,218
Interest	1,364
Total Additions	<u>6,582</u>
DEDUCTIONS:	
Payments in Accordance with Trust Agreements	<u>3,734</u>
Change in Net Assets	2,848
Net Assets Beginning of Year	<u>26,830</u>
Net Assets End of Year	<u><u>\$ 29,678</u></u>

The notes to the basic financial statements are an integral part of this statement.

**Northwest Local School District**  
**Notes to the Basic Financial Statements**  
**For the Fiscal Year Ended June 30, 2007**

---

**NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY**

Northwest 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 was established in 1957 through the consolidation of existing land areas and school districts. The School District serves an area of approximately 156 square miles. It is located in Scioto County, and includes all of the Villages of Rarden and Otway and portions of Brush, Rush, Union, Morgan and Rarden Townships. It is staffed by 67 non-certificated employees, 123 certificated full-time teaching personnel who provide services to 1,795 students and other community members. The School District currently operates 4 instructional buildings, 1 administrative building, and 1 garage.

*Reporting Entity:*

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

Component units are legally separate organizations for which the School District is financially accountable. The School District is financially accountable for an organization if the School District appoints a voting majority of the organization's governing board and (1) the School District is able to significantly influence the programs or services performed or provided by the organization; or (2) the School District is legally 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 following organizations which perform activities within the School District's boundaries for the benefit of its residents are excluded from the accompanying financial statements because the School District is not financially accountable for these organizations nor are they fiscally dependent on the School District:

- \* Parent Teacher Organizations
- \* Booster Associations
- \* Alumni Associations

The School District is associated with three organizations, two of which are defined as jointly governed organizations and one as a public entity shared risk pool. These organizations are the South Central Ohio Computer Association (SCOCA), the Coalition of Rural and Appalachian Schools, and the Scioto County Schools Council. These organizations are presented in Notes 15 and 16 to the basic financial statements.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the Northwest Local School District have been prepared in conformity with accounting principles generally accepted in the United States of America (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.



**Northwest Local School District**  
**Notes to the Basic Financial Statements**  
**For the Fiscal Year Ended June 30, 2007**

---

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

**A. Basis Of Presentation**

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

*Government-wide Financial Statements:*

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

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

*Fund Financial Statements:*

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

**B. Fund Accounting**

The School District's accounts are maintained on the basis of funds, each of which is considered a separate accounting entity. Fund accounting is designed to demonstrate legal compliance and to aid management by segregating transactions related to specific School District's functions or activities. The operation of each fund is accounted for within a separate set of self-balancing accounts.

**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 following are the School District's major governmental funds:

**General Fund**

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

**Northwest Local School District**  
**Notes to the Basic Financial Statements**  
**For the Fiscal Year Ended June 30, 2007**

---

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

**Classroom Facilities Fund**

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 Department of Education for the building and equipping of classroom facilities.

The other governmental funds of the School District account for grants and other resources, and capital projects, whose use is restricted to a particular purpose.

**Fiduciary Funds**

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds, and agency funds. The School District's fiduciary funds are agency funds and private purpose trust funds. Trust funds are used to account for assets held by the School District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the School District's own programs. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. In accordance with GASB 34, fiduciary funds are not included in the government-wide statements.

The School District's fiduciary funds are agency funds which are used to maintain financial activity of the School District's Student Managed Activities, and private purpose trust funds which are used to maintain the financial activity of the School District's Scholarship Funds.

**Measurement Focus**

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

*Fund Financial Statements* - All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

**Basis of Accounting**

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. The fund financial statements are prepared using either the modified accrual basis of accounting for governmental funds or the accrual basis of accounting for fiduciary funds. Differences in the accrual and modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures.

**Northwest Local School District**  
**Notes to the Basic Financial Statements**  
**For the Fiscal Year Ended June 30, 2007**

---

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

**Revenues – Exchange and Non-exchange Transactions**

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. "Measurable" means the amount of the transaction can be determined and "available" means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the School District, available means expected to be received within 60 days of year-end.

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 5). 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 expenditures requirements, in which the resources are provided to the School District on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

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

**Deferred Revenue**

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Property taxes for which there is an enforceable legal claim as of June 30, 2007, but which were levied to finance fiscal year 2008 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue. On governmental fund financial statements, receivables that will not be collected within the available period have also been reported as deferred revenue.

**Expenses/Expenditures**

On the accrual basis of accounting expenses are recognized at the time they are incurred.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable, except for (1) principal and interest on general long-term debt and capital lease obligations, which is recorded when due, (2) the costs of accumulated unpaid vacation, personal leave and sick leave are reported as fund liabilities as payments come due each period upon the occurrence of employee resignations and retirements. Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds.

**C. Budgetary Process**

All funds, other than the agency fund, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the appropriation resolution, and the certificate of estimated resources, which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amounts that the Board of Education may appropriate. The appropriation resolution is the Board's authorization to spend resources and set annual limits on expenditures plus encumbrances at a level of control selected by the Board. The legal level of control has been established by the Board of Education at the fund level. The Treasurer maintains budgetary information at the fund, function object level and has the authority to allocate appropriations at this level without resolution by the Board.

**Northwest Local School District**  
**Notes to the Basic Financial Statements**  
**For the Fiscal Year Ended June 30, 2007**

---

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

The certificate of estimated resources may be amended during the fiscal year if projected increases or decreases in revenue are identified by the School District Treasurer. The amounts reported as the original budgeted amounts in the budgetary statement reflect the amounts in the amended certificate in effect when the permanent appropriations were passed. The amounts reported as the final budgeted amounts in the budgetary statement reflect the amounts in the final amended certificate issued during fiscal year 2007.

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

**Encumbrances**

Encumbrance accounting is utilized by the School District for all funds in the normal course of operations for purchase orders and contract related expenditures. An encumbrance is a reserve on the available spending authority due to a commitment for a future expenditure and does not represent a liability. On the fund financial statements encumbrances outstanding at fiscal year-end are reported as a reservation of fund balance for subsequent year expenditures for governmental funds. A reserve for encumbrance is not reported on the government-wide financial statements. Encumbrances are reported as part of expenditures on a Non-GAAP budgetary basis in the Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual (Budgetary Basis) – General Fund.

**D. Cash and Cash Equivalents**

To improve cash management, all cash received by the School District is pooled. Monies for all funds, are maintained in this pool. Individual fund integrity is maintained through School District records. Each funds interest in the pool is presented as, “Equity in Pooled Cash and Cash Equivalents,” on the financial statements.

The School District maintains a separate bank account for contract retainage and this balance is presented on the financial statements as “Restricted Cash and Cash Equivalents”.

During fiscal year 2007, the School District’s invested funds in the State Treasury Asset Reserve of Ohio (STAROhio). Nonparticipating investment contracts such as repurchase agreements and nonnegotiable certificates of deposit are reported at cost. StarOhio is an investment pool managed by the State Treasurer’s Office that allows governments within the State to pool their funds for investment purposes. StarOhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in StarOhio are valued at StarOhio’s share price which is the price the investment could be sold for on June 30, 2007.

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, Classroom Facilities Major Capital Project Fund, and other governmental funds, during fiscal year 2007 amounted to \$213,107, \$117,805, and \$8,983, respectively.

Investments of the cash management pool and investments with an original maturity of three months or less at the time they are purchased by the School District are considered to be cash equivalents.

**Northwest Local School District**  
**Notes to the Basic Financial Statements**  
**For the Fiscal Year Ended June 30, 2007**

---

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

**E. Capital Assets and Depreciation**

All capital assets of the School District are general capital assets that are associated with governmental activities. General capital assets result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The School District maintains a capitalization threshold of \$500. The School District does not possess any infrastructure.

Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. The District does not capitalize interest for capital asset purchases.

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

<u>Description</u>	<u>Estimated Lives</u>
Land Improvements	10-25 years
Buildings and Improvements	20-25 years
Furniture and Equipment	10-15 years
Vehicles	10-15 years
Textbooks	5-10 years

**F. Interfund Balances**

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

**G. Compensated Absences**

Vacation and personal leave benefits are accrued as a liability as the benefits are earned if the employee's rights to receive compensation are attributable to services already rendered and it is probable that the School District will compensate its employees for the benefits through paid time off or some other means. Sick leave benefits are accrued as a liability using the termination payment method.

The liability includes the employees who are currently eligible to receive severance benefits and those the School District has identified as probable of receiving payment in the future. The School District records an accrual for sick leave to the extent it is probable that benefits will result in termination payments. The accrual amount is based upon an estimate of the School District's past experience of making termination payments.

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

On the governmental fund financial statements, compensated absences are recognized as liabilities and expenditures as payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the account "matured compensated absences payable" in the fund from which the employee will be paid.

**Northwest Local School District**  
**Notes to the Basic Financial Statements**  
**For the Fiscal Year Ended June 30, 2007**

---

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

**H. Accrued Liabilities and Long-Term Obligations**

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

**I. Fund Balance Reserves**

The School District records reservations for portions of fund balance which are legally segregated for a specific future use or which are not available for appropriation. Unreserved undesignated fund balance represents that portion of fund balance reflected for Governmental Funds, which is available for use within the specific purpose of those funds. Fund balance reserves are established for encumbrances, property taxes, and budget stabilization.

**J. Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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.

**K. Net Assets**

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consist of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvements 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 School District applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

Of the District's \$7,277,093 restricted net assets, none is restricted for enabling legislation.

**L. Restricted Assets**

Assets are reported as restricted when limitations on their use change the nature or normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, laws of other governments, or imposed by enabling legislation. Restricted assets in the General Fund include amounts required by state statute to be set aside for budget stabilization. See Note 17 for additional information regarding set-asides. Restricted assets in the Classroom Facilities fund represent cash held as retainage for contractors.

**M. Interfund Transactions**

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

**Northwest Local School District**  
**Notes to the Basic Financial Statements**  
**For the Fiscal Year Ended June 30, 2007**

---

**NOTE 3 - BUDGETARY BASIS OF ACCOUNTING**

While the School District is reporting financial position, results of operations, and changes in fund balances on the basis of accounting principles generally accepted in the United States of America (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual (Budgetary Basis) presented for the 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 (modified accrual) basis are as follows:

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); and
3. Encumbrances are treated as expenditures (budget basis) rather than as a reservation of fund balance (GAAP basis).

The following table summarizes the adjustments necessary to reconcile the GAAP and budgetary basis statements for the General Fund.

Net Change in Fund Balance	
GAAP Basis	\$ (145,638)
Revenue Accruals	(33,483)
Expenditure Accruals	18,582
Encumbrances	<u>(46,157)</u>
Budget Basis	<u><u>\$ (206,696)</u></u>

**NOTE 4 - 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 five-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 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 monies may be deposited or invested in the following securities:

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

**Northwest Local School District**  
**Notes to the Basic Financial Statements**  
**For the Fiscal Year Ended June 30, 2007**

---

**NOTE 4 - DEPOSITS AND INVESTMENTS** (continued)

2. Bonds, notes, debentures, or other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the federal national mortgage association, federal home loan bank, federal farm credit bank, federal home loan mortgage corporation, government national mortgage association, and student loan marketing association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above, provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio, its political subdivisions, or other units or agencies of this State or its political subdivisions;
5. Time certificates of deposit or savings or deposit accounts, including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
7. The State Treasurer's investment pool (STAR Ohio);
8. Securities lending agreements in which the District lends securities and the eligible institution agrees to exchange either securities described in division (1) or (2), or cash, or both securities and cash, equal value for equal value;
9. High grade commercial paper in an amount not to exceed five percent of the District's total average portfolio; and
10. Bankers acceptances for a period not to exceed 270 days and in an amount not to exceed ten percent of the District's total average portfolio.

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

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 qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.



**Northwest Local School District**  
**Notes to the Basic Financial Statements**  
**For the Fiscal Year Ended June 30, 2007**

---

**NOTE 4 - DEPOSITS AND INVESTMENTS** (continued)

**Deposits** Custodial credit risk is the risk that in the event of a bank failure, the School District's deposits may not be returned to it. According to state law, public depositories must give security for all public funds on deposit in excess of those funds that are insured by the Federal Deposit Insurance Corporation (FDIC) or by any other agency or instrumentality of the federal government. These institutions may either specifically collateralize individual accounts in lieu of amounts insured by the FDIC, or may pledge a pool of government securities valued at least 105% of the total value of public monies on deposit at the institution. The School District's policy is to deposit money with financial institutions that are able to abide by the laws governing insurance and collateral of public funds.

As of June 30, 2007, the School District's bank balance of \$10,136,525 was either covered by the FDIC or collateralized by the financial institution's public entity deposit pool in the manner described above.

**Investments** As of June 30, 2007, the School District had the following investments and maturities:

	<u>Uncategorized</u>	<u>Carrying/Fair Value</u>	<u>Weighted Average Maturity (Years)</u>
STAR Ohio	\$ 29,009	\$ 29,009	<1 Year
Total Investments	<u>\$ 29,009</u>	<u>\$ 29,009</u>	

**Interest rate risk** – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. In accordance with the investment policy, the District manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio.

**Credit Risk** – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations.

The District limited their investments to securities in STAR Ohio. Below is the credit rating of the School District's investment:

Standard & Poor's

STAR Ohio AAAm

**Concentration of credit risk** – Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single user. The School District's investment policy allows investments in Star Ohio, repurchase agreements, Federal Agencies or Instrumentalities. 100% of the District's investments are in Star Ohio.

**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. All of the School District's securities are held in the name of the School District.

**NOTE 5 - 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 year 2007 for real and public utility property taxes represents collections of calendar year 2006 taxes. Property tax payments received during calendar year 2007 for tangible personal property (other than public utility property) is for calendar year 2006 taxes.

**Northwest Local School District**  
**Notes to the Basic Financial Statements**  
**For the Fiscal Year Ended June 30, 2007**

**NOTE 5 - PROPERTY TAXES** (continued)

2007 real property taxes are levied after April 1, 2006, on the assessed value as of January 1, 2006, the lien date. Assessed values are established by State law at thirty-five percent of appraised market value. Public utility tangible personal property currently is assessed at varying percentages of true value; public utility real property is assessed at thirty-five percent of true value. 2007 public utility property taxes became a lien December 31, 2005, are levied after April 1, 2006 and are collected in 2007 with real property taxes.

2007 tangible personal property taxes are levied after April 1, 2006, on the value as of December 31, 2005. Collections are made in 2007. Tangible personal property assessments are twenty-five percent of true value. 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.

Ohio House Bill No. 66 was signed into law on June 30, 2005. House Bill No. 66 phases out the tax on tangible personal property of general businesses, telephone and telecommunications companies, and railroads. The tax on general business and railroad property will be eliminated by calendar year 2009, and the tax on telephone and telecommunications property will be eliminated by calendar year 2011. The tax is phased out by reducing the assessment rate on the property each year. The bill replaces revenue lost by the District due to the phasing out of the tax. In calendar years 2006-2010, the District will be fully reimbursed at the level of calendar year 2004 assessed values for the lost revenue. In calendar years 2011-2017, the reimbursements will be phased out

The assessed values upon which fiscal year 2007 taxes were collected are:

	<u>2006 Second-Half Collections</u>		<u>2007 First-Half Collections</u>	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/Residential and Other Real Estate	\$ 71,118,660	86.39%	\$ 72,908,910	88.23%
Public Utility	6,933,490	8.42%	6,464,340	7.82%
Tangible Personal Property	4,269,992	5.19%	3,262,087	3.95%
Total Assessed Value	<u>\$ 82,322,142</u>	<u>100.00%</u>	<u>\$ 82,635,337</u>	<u>100.00%</u>
 Tax rate per \$1,000 of assessed valuation	 \$ 24.81		 \$ 24.81	

The School District receives property taxes from Scioto County. The County Auditor periodically advances to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2007, are available to finance fiscal year 2007 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, tangible personal property, and public utility taxes that became measurable as of June 30, 2007 and for which there is an enforceable legal 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 fiscal year operations. The receivable is therefore offset by a credit to deferred revenue for that portion not levied to finance current year operations. The amount available as an advance is recognized as revenue.

The amounts available as advances at June 30, 2007, were \$128,817 in the General Fund, \$28,307 in Bond Retirement Non-major Debt Service Fund and \$2,053 in the Classroom Facilities Maintenance Non-major Special Revenue Fund.

**Northwest Local School District**  
**Notes to the Basic Financial Statements**  
**For the Fiscal Year Ended June 30, 2007**

**NOTE 6 - RECEIVABLES**

Receivables at June 30, 2007, consisted of accounts receivable, taxes receivable, and intergovernmental grants. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current fiscal year guarantee of federal funds. A summary of the principal items of intergovernmental receivables follows:

Major Capital Projects Fund:	<u>Amount</u>
Classroom Facilities Project	\$ 2,983,414
Total Major Capital Projects Fund	<u>2,983,414</u>
Non-major Special Revenue Funds:	
Food Service Fund	68,490
Miscellaneous Grants	<u>46,726</u>
Total Non-major Special Revenue Funds	<u>115,216</u>
Total All Funds	<u><u>\$ 3,098,630</u></u>

**NOTE 7 - CAPITAL ASSETS**

Capital assets activity for the fiscal year ended June 30, 2007, was as follows:

	Ending Balance 6/30/2006	Additions	Deletions	Ending Balance 6/30/2007
Capital Assets, Not Being Depreciated				
Land	\$ 189,530	\$ 19,200	\$ -	\$ 208,730
Construction in Progress	4,305,118	6,911,162	-	11,216,280
Total Capital Assets, Not Being Depreciated	<u>4,494,648</u>	<u>6,930,362</u>	-	<u>11,425,010</u>
Capital Assets, Being Depreciated				
Land Improvements	1,215,919	-	-	1,215,919
Buildings and Improvements	20,479,332	-	-	20,479,332
Furniture and Equipment	5,813,315	82,327	(2,400)	5,893,242
Vehicles	1,916,157	164,850	(23,275)	2,057,732
Textbooks	<u>1,062,043</u>	<u>-</u>	<u>-</u>	<u>1,062,043</u>
Total Capital Assets, Being Depreciated	<u>30,486,766</u>	<u>247,177</u>	<u>(25,675)</u>	<u>30,708,268</u>
Less Accumulated Depreciation				
Land Improvements	(888,561)	(42,946)	-	(931,507)
Buildings and Improvements	(7,774,205)	(513,522)	-	(8,287,727)
Furniture and Equipment	(4,639,518)	(193,330)	2,400	(4,830,448)
Vehicles	(1,283,299)	(72,629)	18,345	(1,337,583)
Textbooks	<u>(913,419)</u>	<u>(11,895)</u>	<u>-</u>	<u>(925,314)</u>
Total Accumulated Depreciation	<u>(15,499,002)</u>	<u>(834,322)</u>	<u>20,745</u>	<u>(16,312,579)</u>
Total Capital Assets, Being Depreciated, Net	<u>14,987,764</u>	<u>(587,145)</u>	<u>(4,930)</u>	<u>14,395,689</u>
Governmental Activities Capital Assets, Net	<u><u>\$ 19,482,412</u></u>	<u><u>\$ 6,343,217</u></u>	<u><u>\$ (4,930)</u></u>	<u><u>\$ 25,820,699</u></u>

**Northwest Local School District**  
**Notes to the Basic Financial Statements**  
**For the Fiscal Year Ended June 30, 2007**

---

**NOTE 7 - CAPITAL ASSETS** (continued)

Depreciation expense was charged to government functions as follows:

Instruction:	
Regular	\$663,613
Special	443
Support Services:	
Pupils	1,130
Instructional Staff	17,961
Administration	6,356
Fiscal	628
Operation and Maintenance of Plant	80,836
Pupil Transportation	16,721
Operation of Non-Instructional Services	30,334
Extra-Curricular Activities	16,300
Total Depreciation Expense	\$834,322

**NOTE 8 – RISK MANAGEMENT**

The School District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2007, the School District contracted with Selective Insurance Company of South Carolina for property and fleet insurance, liability insurance, and inland marine coverage. Coverages provided by Selective Insurance Company of South Carolina were as follows:

Building and Contents-replacement cost (\$1,000 deductible)	\$39,443,393
Inland Marine Coverage (\$1,000 deductible)	10,000
Boiler and Machinery (\$1,000 deductible)	No Limit
Crime Insurance (\$1,000 deductible)	50,000
Automobile Liability (No deductible)	1,000,000
Uninsured Motorists (No deductible)	50,000
General Liability	
Per occurrence	2,000,000
Total per year	5,000,000

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

The School District is a member of the Scioto County Schools Council, a public entity shared risk pool (Note 16), offering employee medical and dental insurance to participating school districts within the county. Monthly premiums are paid to the South Central Ohio Educational Service Center as fiscal agent, who in turns pays the claims on the School District's behalf. The Council is responsible for the management and operations of the program. Upon a school district's termination from the Council, the Council shall have no obligation to the school district beyond paying claims incurred prior to termination and any applicable extended benefits that were provided under the plan. All claims and expenses shall be paid from the funds of the Council.

**NOTE 9 - DEFINED BENEFIT PENSION PLANS**

**A. School Employees Retirement System**

The School District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by State statute per Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling (614)222-5853.

**Northwest Local School District**  
**Notes to the Basic Financial Statements**  
**For the Fiscal Year Ended June 30, 2007**

---

**NOTE 9 - DEFINED BENEFIT PENSION PLANS** (continued)

Plan members are required to contribute 10% of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current rate is 14% of annual covered payroll. For fiscal year 2007, 10.68% was the portion allocated to fund pension obligations and 3.32% was the amount allocated to health care coverage. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board. The School District's required contributions for pension obligations to SERS for the years ended June 30, 2007, 2006, and 2005 were \$217,857, \$241,315, and \$205,612, respectively. 46% has been contributed for fiscal year 2007 and 100% for the fiscal years 2006 and 2005. \$117,643 represents the unpaid contribution for fiscal year 2007.

**B. State Teachers Retirement System**

The School District contributed to the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing multiple employer defined benefit pension plan. STRS Ohio is a statewide retirement plan for licensed teachers and other faculty members employed in the public schools of Ohio or any school, college, university, institution or other agency controlled, managed and supported in whole or in part, by the state or any political subdivision thereof. STRS Ohio provides retirement and disability benefits, annual cost-of-living adjustments, and death and survivor benefits to plan members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS Ohio issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3371.

Plan Options – Effective July 1, 2001, two new plan options were offered to selected members. New members have a choice of three retirement plan options. In addition to the Defined Benefit (DB) Plan, new members are offered a Defined Contribution (DC) Plan and a Combined Plan. The DC Plan allows members to allocate all their member contributions and employer contributions equal to 10.5% of earned compensation. The Combined Plan offers features of the DC Plan and the DB Plan. In the Combined Plan, member contributions are allocated by the member, and employer contributions are used to fund a defined benefit payment at a reduced level from the regular DB Plan. Contributions into the DC Plan and the Combined Plan are credited to member accounts as employers submit their payroll information to STRS Ohio, generally on a biweekly basis. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan.

**DB Plan Benefits** – Plan benefits are established under Chapter 3307 of the Revised Code. Any member may retire who has (i) five years of service credit and attained age 60; (ii) 25 years of service credit and attained age 55; or (iii) 30 years of service credit regardless of age. The annual retirement allowance, payable for life, is the greater of the “formula benefit” or the “money-purchase benefit” calculation. Under the “formula benefit,” the retirement allowance is based on years of credited service and final average salary, which is the average of the member's three highest salary years. The annual allowance is calculated by using a base percentage of 2.2% multiplied by the total number of years of service credit (including Ohio-valued purchased credit) times the final average salary. The 31st year of earned Ohio service credit is calculated at 2.5%. An additional one-tenth of a percent is added to the calculation of every year of earned Ohio service over 31 years (2.6% for 32 years, 2.7% for 33 years and so on) until 100% of final average salary is reached. For members with 35 or more years of Ohio contributing service, the first 30 years will be calculated at 2.5% instead of 2.2%. Under the “money-purchase benefit” calculation, a member's lifetime contributions plus interest at specified rates are matched by an equal amount from other STRS Ohio funds. This total is then divided by an actuarially determined annuity factor to determine the maximum annual retirement allowance.

**DC Plan Benefits** – Benefits are established under Sections 3307.80 to 3307.89 of the Revised Code. For members who select the DC Plan, all member contributions and employer contributions at a rate of 10.5% are placed in an investment account. The member determines how to allocate the member and employer money among various investment choices. 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. Employer contributions into members' accounts are vested after the first anniversary of the first day of paid service. Members in the DC Plan who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

**Northwest Local School District**  
**Notes to the Basic Financial Statements**  
**For the Fiscal Year Ended June 30, 2007**

---

**NOTE 9 - DEFINED BENEFIT PENSION PLANS** (continued)

**Combined Plan Benefits** – Member contributions are allocated by the member, and employer contributions are used to fund a defined benefit payment. A member's defined benefit is determined by multiplying 1% of the member's final average salary by the member's years of service credit. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60. The defined contribution portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50.

A retiree of STRS Ohio or another Ohio public retirement system is eligible for reemployment as a teacher following the elapse of two months from the date of retirement. Contributions are made by the reemployed member and employer during the reemployment. Upon termination of reemployment or age 65, whichever comes later, the retiree is eligible for a money-purchase benefit or a lump-sum payment in addition to the original retirement allowance.

Benefits are increased annually by 3% of the original base amount.

The Defined Benefit and Combined Plans offer access to health care coverage to eligible retirees who participated in the plans and their eligible dependents. Coverage under the current program includes hospitalization, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums. By Ohio law, health care benefits are not guaranteed.

A Defined Benefit 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. A death benefit of \$1,000 is payable to the beneficiary of each deceased retired member who participated in the Defined Benefit Plan. Death benefit coverage up to \$2,000 can be purchased by participants in the DB, DC or Combined Plan. Various other benefits are available to members' beneficiaries.

For fiscal year 2007, plan members are required to contribute 10% of their annual covered salaries. The School District was required to contribute 14%, and 13% was allocated to fund pension benefits. Contribution rates are established by STRS Ohio, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. The School District's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2007, 2006, and 2005 were \$762,185, \$772,938, and \$831,516, respectively; 83% has been contributed for fiscal year 2007 and 100% for fiscal years 2006 and 2005. \$131,638 represents the unpaid contribution for fiscal year 2007 and is recorded as a liability within the respective funds.

**NOTE 10 - POSTEMPLOYMENT BENEFITS**

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

All STRS benefit recipients and sponsored dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14% of covered payroll. For the fiscal year 2007, the STRS Board allocated employer contributions equal to 1% of covered payroll to the Health Care Reserve Fund. For the School District, this amount equaled \$59,409 for fiscal year 2007.

**Northwest Local School District**  
**Notes to the Basic Financial Statements**  
**For the Fiscal Year Ended June 30, 2007**

---

**NOTE 10 - POSTEMPLOYMENT BENEFITS** (continued)

STRS pays health care benefits from the Health Care Stabilization Fund. At June 30, 2006, the most recent year available, the balance in the Fund was \$3.5 billion. For the year ended June 30, 2006, the most recent year available, net health care costs paid by STRS were \$282,743,000 and STRS had 119,184 eligible benefit recipients.

The Ohio Revised Code gives SERS the discretionary authority to provide postretirement health care to retirees and their dependents. Coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, disability and survivor benefit recipients. Effective January 1, 2004, all retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility and retirement status. A safety net is in place for retirees whose household income falls below federal poverty levels. Premiums are reduced by 50% for those who apply.

After the allocation for basic benefits, the remainder of the employer's 14% contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2007, employer contributions to fund health care benefits were 3.32 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2007, the minimum pay was established at \$35,800. However, the surcharge is capped at 2 percent of each employer's STRS salaries. The surcharge, added to the unallocated portion of the 14% employer contribution rate, provides for maintenance of the asset target level for the health care fund. For the School District, the amount contributed to fund health care benefits, including the surcharge, during the 2007 fiscal year equaled \$105,036.

The target level for the health care reserve is 150 percent of the annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2006, the latest year available, were \$158,751,207. As of June 30, 2006, the most recent year available, the value of the health care fund was \$295.6 million. SERS has approximately 59,492 participants currently receiving health care benefits.

**NOTE 11 - 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 ten to twenty days of vacation per fiscal year, depending upon length of service. Accumulated, unused vacation time is paid to classified employees and administrators upon termination of employment. 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 personnel and 225 days for certified personnel. Upon retirement, payment is made for one-fourth of accrued, but unused sick leave credit to a maximum of 52 days for classified and 52 days for certified personnel.

**B. Insurance Benefits**

The School District provides life insurance to most employees through CoreSource.

**C. Deferred Compensation**

School District employees may participate in the Ohio Public Employees Deferred Compensation Plan. This plan was created in accordance with Internal Revenue Code Section 457. Participation is on a voluntary payroll deduction basis. The plan permits deferral of compensation until future years. According to the plan, the deferred compensation is not available until termination, retirement, death or an unforeseeable emergency.

**Northwest Local School District**  
**Notes to the Basic Financial Statements**  
**For the Fiscal Year Ended June 30, 2007**

**NOTE 12 - CAPITAL LEASES - LESSEE DISCLOSURE**

The School District entered into a lease purchase agreement on August 21, 2002 to finance the School District's portion of the classroom facilities project. The lease meets the criteria of a capital lease as defined by the 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 combined financial statements for the governmental funds. These expenditures are reported as function expenditures on the budgetary statements. Principal payments in fiscal year 2007 totaled \$167,000 in the governmental funds.

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, 2007.

Fiscal Year Ending June 30,		
2008	\$	292,631
2009		291,357
2010		291,454
2011		290,635
2012		291,020
Thereafter		<u>1,873,224</u>
Total Minimum Lease Payments		3,330,321
Less: Amounts Representing Interest		<u>(764,321)</u>
Present Value of Minimum Lease Payments	\$	<u><u>2,566,000</u></u>

**NOTE 13 - LONG-TERM LIABILITIES**

The changes in the School District's long-term liabilities during fiscal year 2007 were as follows:

	Principal Outstanding 6/30/2006	Additions	Deductions	Principal Outstanding 6/30/2007	Due Within One Year
1999 School Facilities General Obligation Refunding Bond - 4.5%	\$ 1,938,394	\$ 58,801	\$ 225,000	\$ 1,772,195	\$ 235,000
Capital Leases	2,733,000	-	167,000	2,566,000	175,000
Compensated Absences	<u>1,074,653</u>	<u>937,765</u>	<u>1,074,653</u>	<u>937,765</u>	<u>54,476</u>
Total Long-Term Liabilities	<u>\$ 5,746,047</u>	<u>\$ 996,566</u>	<u>\$ 1,466,653</u>	<u>\$ 5,275,960</u>	<u>\$ 464,476</u>

\$1,990,000 were issued as serial bonds with interest rates ranging from 3.25% - 4.30%. \$529,992 was issued as capital appreciation bonds. The bonds were issued with a \$358,114 premium. The serial bonds and capital appreciation bonds are not subject to mandatory sinking fund or optional redemption prior to stated maturity. The capital appreciation bonds will mature in fiscal years 2010 through 2015. The maturity amount of the bonds is \$1,640,000. For fiscal year 2007, \$58,801 was accreted on the capital appreciation bonds for a total outstanding bond value of \$1,772,195 at fiscal year end. \$757,203 was the total accreted value through June 30, 2007.

Capital leases will be paid from the General Fund. Compensated absences will be paid from the funds from which the employees' salaries are paid.

The School District's overall legal debt margin was \$5,470,529 with an unvoted debt margin of \$82,635 at June 30, 2007.



**Northwest Local School District**  
**Notes to the Basic Financial Statements**  
**For the Fiscal Year Ended June 30, 2007**

**NOTE 13 - LONG-TERM LIABILITIES** (continued)

Principal and interest requirements to retire general obligation bonds at June 30, 2007, are as follows:

<u>Fiscal Year</u> <u>Ending June 30,</u>	<u>Serial</u> <u>Bonds</u>	<u>Capital</u> <u>Appreciation</u> <u>Bonds</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 235,000	\$ -	\$ 15,744	\$ 250,744
2009	250,000	-	5,375	255,375
2010	-	100,443	169,557	270,000
2011	-	92,996	172,004	265,000
2012	-	89,392	180,608	270,000
2013-2015	-	247,161	587,839	835,000
	<u>\$ 485,000</u>	<u>\$ 529,992</u>	<u>\$ 1,131,127</u>	<u>\$ 2,146,119</u>

The amortization schedule does not match the outstanding debt amounts listed on page 34 due to capital appreciation bonds which are being accreted.

**NOTE 14 - INTERFUND ACTIVITY**

**Interfund Transfers**

Transfers made during the year ended June 30, 2007, were as follows:

	<u>Transfer From</u>	<u>Transfer To</u>
Major Fund:		
General	\$ 64,673	\$ -
Non-Major Special Revenue Fund:		
District Managed Activity	-	64,673
Total	<u>\$ 64,673</u>	<u>\$ 64,673</u>

Transfers are made to move unrestricted balances to support programs and projects accounted for in other funds.

Interfund balances at June 30, 2007, consist of the following individual fund receivables and payables, which are expected to be repaid during the 2008 fiscal year:

<u>Interfund Loans</u>	<u>Receivable</u>	<u>Payable</u>
General fund	\$ 74,180	\$ -
Nonmajor Special Revenue Fund		
Food Service Fund	-	74,180
Total Nonmajor Special Revenue Fund	-	74,180
Total Interfund Receivables/Payables	<u>\$ 74,180</u>	<u>\$ 74,180</u>

The amounts due to the General fund are the result of the School District moving unrestricted monies to support grant funds whose grants operate on a reimbursement basis. The General fund will be reimbursed when funds become available in the non-major special revenue fund.

**Northwest Local School District**  
**Notes to the Basic Financial Statements**  
**For the Fiscal Year Ended June 30, 2007**

---

**NOTE 15 - JOINTLY GOVERNED ORGANIZATIONS**

*South Central Ohio Computer Association* - The School District is a participant in the South Central Ohio Computer Association (SCOCA) which is a computer consortium. SCOCA is an association of public school districts within the boundaries of Adams, Brown, Highland, Lawrence, Pike, Ross, Vinton, and Scioto Counties. 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 school districts. The governing board of SCOCA consists of two representatives from each of the eight participating counties, two representatives of the school treasurers plus the fiscal agent. The School District paid \$115,184 for services provided by SCOCA during this fiscal year. Financial information can be obtained from the fiscal agent, the Pike County Joint Vocational School District, Tonya Cooper, who serves as Treasurer, at P.O. Box 577, 175 Beaver Creek Road, Piketon, Ohio 45661.

*Coalition of Rural and Appalachian Schools* - The Coalition of Rural and Appalachian Schools is a jointly governed organization of over one hundred school districts in southeastern Ohio. The Coalition is operated by a board which is composed of fourteen members. The board members are composed of one superintendent from each county elected by the school districts within that county. The Council provides various services for school district administrative personnel; gathers data regarding conditions of education in the region; cooperates with other professional groups to assess and develop programs designed to meet the needs of member districts; and provides staff development programs for school district personnel. The Council is not dependent upon the continued participation of the School District and the School District does not maintain an equity interest in or a financial responsibility for the Council. The School District did not incur any expenditures for services provided by the Coalition during the year.

**NOTE 16 - PUBLIC ENTITY SHARED RISK POOL**

*Scioto County Schools Council* - The School District is a member of the Scioto County Schools Council, a public entity shared risk pool. Several Scioto County school districts have entered into an agreement with the South Central Ohio Educational Service Center to form the Scioto County Schools Council. The overall objectives of the council are to formulate and administer a program of health insurance for the benefit of the council members' employees and their dependents, to obtain lower costs for health coverage, and to secure cost control by implementing a program of comprehensive loss control. The Council's business and affairs are managed by a Board of Directors, consisting of the superintendents from each of the participating school districts. The School District pays premiums based on what the Council estimates will cover the costs of all claims for which the Council is obligated. If the School District's claims exceed its premiums, there is no individual supplemental assessment; on the other hand, if the School District's claims are low, it will not receive a refund.

The Council views its activities in the aggregate, rather than on an individual entity basis. To obtain financial information, write to the fiscal agent, South Central Ohio Educational Service Center at Fourth and Court Streets, Portsmouth, Ohio 45662.

**NOTE 17 - 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 or construction of capital improvements. Amounts not spent by year-end or offset by similarly restricted resources received during the year must be held in restricted cash at year-end and carried forward to be used for the same purposes in future years. For the fiscal year ended June 30, 2007, the School District was no longer required to set aside funds in the budget reserve set-aside, with the exception of monies received from the Bureau of Worker's Compensation, which must be spent for specified purposes.

**Northwest Local School District**  
**Notes to the Basic Financial Statements**  
**For the Fiscal Year Ended June 30, 2007**

**NOTE 17 - SET-ASIDE CALCULATIONS AND FUND RESERVES** (continued)

The following information describes the change in the year-end set-aside amounts for textbooks and capital acquisition. 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, 2006	(\$1,684,635)	(\$1,417,180)	\$87,229
Current year set-aside requirement	261,645	261,645	0
Qualifying disbursements	<u>(1,264,755)</u>	<u>(6,917,098)</u>	<u>0</u>
Set-aside Cash Balance as of June 30, 2007	<u><u>(\$2,687,745)</u></u>	<u><u>(\$8,072,633)</u></u>	<u><u>\$87,229</u></u>
Set-aside Reserve Balance as of June 30, 2007	<u><u>\$0</u></u>	<u><u>\$0</u></u>	<u><u>\$87,229</u></u>

The School District had offset and qualifying disbursements during the year that reduced the set-aside amounts below zero in the Textbooks and Capital Acquisition Reserves. These extra amounts may be carried forward and used to reduce the set-aside requirements of future years.

**NOTE 18 - CONTINGENCIES**

A. Grants

The School District received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2007.

B. Litigation

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

C. Contractual Commitments

The District is undertaking a number of new construction projects as parts of the Ohio School Facilities Program. The following is a list of significant outstanding contractual commitments as of year end:

<u>Vendors</u>	<u>Contract Amount</u>	<u>Amount Expended</u>	<u>Balance at 06/30/07</u>
Mechanical Construction Company	\$ 7,454,130	\$ 4,412,852	\$ 3,041,278
Stevens Construction	487,176	53,927	433,249
West End Electric, Inc.	2,362,770	1,604,954	757,816
Totals	<u><u>\$ 10,304,076</u></u>	<u><u>\$ 6,071,733</u></u>	<u><u>\$ 4,232,343</u></u>

**Northwest Local School District**  
*Notes to the Basic Financial Statements*  
**For the Fiscal Year Ended June 30, 2007**

---

**NOTE 19 – ACCOUNTABILITY**

**Accountability - Fund Balance Deficits**

At June 30, 2007, the Food Service, Summer School Grant, PBA Funds, Title I, Title II-A and Goals 2000 Proficiency Special Revenue Funds had fund balance deficits of \$93,596, \$218, \$170,351, \$24,059, \$27,554, and \$14,076 respectively which were created by the application of accounting principles generally accepted in the United States of America. The General Fund provides transfers to cover deficit balances; however, this is done when cash is needed rather than when accruals occur.

**Northwest Local School District**  
Schedule of Federal Awards Expenditures  
For the Fiscal Year Ended June 30, 2007

Federal Grantor/Pass Through Grantor/Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
<b>United States Department of Agriculture</b>						
<i>Passed through the Ohio Department of Education</i>						
Food Donation	NA	10.550	\$ -	\$ 63,445	\$ -	\$ 63,445
<i>Nutrition Cluster:</i>						
School Breakfast Program	05-PU	10.553	109,578	-	109,578	-
National School Lunch Program	LL-P4	10.555	307,336	-	307,336	-
Total United States Department of Agriculture			416,914	63,445	416,914	63,445
<b>United States Department of Education</b>						
<i>Passed through Shawnee State University</i>						
Twenty-first Century Community Learning Centers	NA	84.287	93,000	-	93,000	-
<i>Passed through the Ohio Department of Education</i>						
Special Education-Grants to States	6B-SF	84.027	416,805	-	416,805	-
Title I Grants to Local Educational Agencies	C1-S1	84.010	617,586	-	540,482	-
Safe & Drug Free Schools and Communities - State Grants	DR-S1	84.186	12,522	-	12,522	-
State Grants for Innovative Programs	C2-S1	84.298	2,780	-	2,780	-
Education Technology State Grants	TJ-S1	84.318	6,425	-	9,290	-
Rural Education	RU-S1	84.358	44,173	-	44,173	-
Improving Teacher Quality State Grants	TR-S1	84.367	161,634	-	161,634	-
Total United States Department of Education			1,354,925	-	1,280,686	-
<b>Total Federal Financial Assistance</b>			<b>\$1,771,839</b>	<b>\$63,445</b>	<b>\$1,697,600</b>	<b>\$63,445</b>

NA - Pass Through Entity Number is Not Available

See accompanying notes to the schedule of federal awards expenditures.

**Northwest Local School District**  
*Notes to Schedule of Federal Awards Expenditures*  
**For the Fiscal Year Ended June 30, 2007**

---

**NOTE A - SIGNIFICANT ACCOUNTING POLICIES**

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

**NOTE B -FOOD DONATION**

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

**BALESTRA, HARR & SCHERER, CPAs, INC.**  
528 South West Street, P.O. Box 687  
Piketon, Ohio 45661

---

Telephone (740) 289-4131  
Fax (740) 289-3639  
www.bhscpas.com

Member American Institute of Certified Public Accountants

Ohio Society of Certified Public Accountants

**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***

Members of the Board  
Northwest Local School District  
800 Mohawk Drive  
McDermott, Ohio 45652

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Northwest Local School District (the School District) as of and for the year ended June 30, 2007, and have issued our report thereon dated December 28, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

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

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the School District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the School District's financial statements that is more than inconsequential will not be prevented or detected by the School District's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the School District's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be 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.

Members of the Board

Northwest Local School District

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Page 2

### **Compliance and Other Matters**

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

We noted a certain matter which we reported to management of the School District in a separate report dated December 28, 2007.

This report is intended solely for the information and use of the management, members of the Board, 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.



Balestra, Harr & Scherer, CPAs, Inc.  
December 28, 2007



# BALESTRA, HARR & SCHERER, CPAs, INC.

528 South West Street, P.O. Box 687  
Piketon, Ohio 45661

---

Telephone (740) 289-4131

Fax (740) 289-3639

www.bhscpas.com

Member American Institute of Certified Public Accountants

Ohio Society of Certified Public Accountants

## **REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Members of the Board  
Northwest Local School District  
800 Mohawk Drive  
McDermott, Ohio 45652

### **Compliance**

We have audited the compliance of Northwest Local School District, Scioto County, Ohio (the School District) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2007. The School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the School District's management. Our responsibility is to express an opinion on the School District's compliance based on our audit.

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

In our opinion, the School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2007.

Members of the Board

Northwest Local School District

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

Page 2

### **Internal Control Over Compliance**

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

A control deficiency in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the School District's internal control.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be 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.

This report is intended solely for the information and use of management, the 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.



Balestra, Harr & Scherer, CPAs, Inc.

December 28, 2007

**NORTHWEST LOCAL SCHOOL DISTRICT  
SCIOTO COUNTY**

*SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
OMB CIRCULAR A-133 SECTION .505  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007*

**1. SUMMARY OF AUDITOR' S RESULTS**

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any significant internal control deficiencies reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any material weakness reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported noncompliance at the financial statement level (GAGAS)?	No
(d)(1)(iv)	Were there any significant internal control deficiencies reported for major federal programs?	No
(d)(1)(iv)	Were there any material weakness reported for major federal programs?	No
(d)(1)(v)	Type of Major Program' s Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under section .510?	No
(d)(1)(vii)	Major Programs (list):	Special Education – Grants to States: CFDA #84.027 Title I Grants to Local Educational Agencies: CFDA# 84.010
(d)(1)(viii)	Dollar Threshold: Type A\B Programs	Type A: > \$300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	Yes

**NORTHWEST LOCAL SCHOOL DISTRICT  
SCIOTO COUNTY**

*SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
OMB CIRCULAR A-133 SECTION .505  
(CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007*

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

None

**3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS**

Finding Number	None
CFDA Title and Number	
Federal Award Number/Year	
Federal Agency	
Pass-Through Agency	



**Mary Taylor, CPA**  
Auditor of State

**NORTHWEST LOCAL SCHOOL DISTRICT**

**SCIOTO 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 5, 2008**