

**Northwestern Local
School District**
Audited Financial Statements

June 30, 2011



Rea & Associates, Inc.

ACCOUNTANTS AND BUSINESS CONSULTANTS

Focused on Your Future.



Dave Yost • Auditor of State

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

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

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

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

Dave Yost
Auditor of State

October 14, 2011

**NORTHWESTERN LOCAL SCHOOL DISTRICT
WAYNE COUNTY**

JUNE 30, 2011

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Rea & Associates, Inc.

ACCOUNTANTS AND BUSINESS CONSULTANTS

Focused on Your Future.

August 11, 2011

To the Board of Education
Northwestern Local School District
West Salem, OH 44287

Independent Auditor's Report

We have audited the accompanying financial statements of Northwestern Local School District, Wayne County, (the "District") as of and for the year ended June 30, 2011, as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

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

In our opinion, the accompanying financial statements do not present fairly the financial position, results of operations, and cash flows, where applicable, of the District as of and for the year ended June 30, 2011 in accordance with accounting principles generally accepted in the United States of America.

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

In accordance with *Government Auditing Standards*, we also have issued our report dated August 11, 2011 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

We conducted our audit to opine on the District's financial statements. The Schedule of Expenditures of Federal Awards presents additional information and is required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. It is not a required part of the financial statements. We subjected this schedule to the auditing procedures applied in our audit of the District's financial statements. For reasons stated in the third paragraph, the financial statements do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the District, as of June 30, 2011, or its changes in financial position or its cash flows for the year then ended. Therefore we are unable to express, and we do not express an opinion on the Schedule of Expenditures of Federal Awards.

Rea & Associates, Inc.

NORTHWESTERN LOCAL SCHOOL DISTRICT
WAYNE COUNTY, OHIO
COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSMENTS, AND CHANGES IN FUND CASH BALANCES
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED JUNE 30, 2011

	Governmental Fund Types				Total (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects	
CASH RECEIPTS:					
Taxes	\$ 4,062,535	\$ 45,407	\$ 691,399	\$ 190,959	\$ 4,990,300
Intergovernmental	6,871,181	1,762,732	122,705	38,347	8,794,965
Investment Income	2,577	421	0	2,267	5,265
Tuition and Fees	817,526	0	0	0	817,526
Extracurricular Activities	0	289,363	0	0	289,363
Rentals	2,500	0	0	0	2,500
Miscellaneous	37,011	45,406	0	14,841	97,258
Total Cash Receipts	<u>11,793,330</u>	<u>2,143,329</u>	<u>814,104</u>	<u>246,414</u>	<u>14,997,177</u>
CASH DISBURSEMENTS:					
Instruction:					
Regular	5,091,241	484,046	0	0	5,575,287
Special	807,901	587,204	0	0	1,395,105
Vocational	566,484	0	0	0	566,484
Student Intervention Services	1,306	0	0	0	1,306
Other	270,395	10,883	0	0	281,278
Support Services:					
Pupils	400,721	127,524	0	0	528,245
Instructional Staff	570,454	132,089	0	0	702,543
Board of Education	43,742	11,008	0	0	54,750
Administration	553,738	505,622	0	0	1,059,360
Fiscal	305,522	19,879	14,188	4,046	343,635
Operation and Maintenance of Plant	1,194,799	207,925	0	0	1,402,724
Pupil Transportation	814,620	0	0	0	814,620
Central	2,952	46,287	0	0	49,239
Operation of Non-Instructional Services	1,200	0	0	0	1,200
Extracurricular Activities	338,140	172,539	0	0	510,679
Capital Outlay	0	0	0	282,049	282,049
Debt Service:					
Principal Retirement	0	0	485,000	0	485,000
Interest and Fiscal Charges	0	0	292,744	0	292,744
Total Cash Disbursements	<u>10,963,215</u>	<u>2,305,006</u>	<u>791,932</u>	<u>286,095</u>	<u>14,346,248</u>
Cash Receipts Over/(Under) Cash Disbursements	830,115	(161,677)	22,172	(39,681)	650,929
Other Financing Sources (Uses)					
Operating Transfers In	0	41,000	0	0	41,000
Operating Transfers Out	(41,000)	0	0	0	(41,000)
Total Other Financing Sources (Uses)	<u>(41,000)</u>	<u>41,000</u>	<u>0</u>	<u>0</u>	<u>0</u>
Excess of Cash Receipts and Other Financing Sources Over/(Under) Cash Disbursements and Other Financing Uses					
	789,115	(120,677)	22,172	(39,681)	650,929
Fund Cash Balances, July 1, 2010	<u>1,643,213</u>	<u>494,469</u>	<u>1,700,143</u>	<u>144,435</u>	<u>3,982,260</u>
Fund Cash Balances, June 30, 2011	<u>\$ 2,432,328</u>	<u>\$ 373,792</u>	<u>\$ 1,722,315</u>	<u>\$ 104,754</u>	<u>\$ 4,633,189</u>
Reserve for Encumbrances	<u>\$ 165,702</u>	<u>\$ 46,014</u>	<u>\$ 0</u>	<u>\$ 68,780</u>	<u>\$ 280,496</u>

See accompanying notes to the financial statements.

**NORTHWESTERN LOCAL SCHOOL DISTRICT
WAYNE COUNTY, OHIO
COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSMENTS, AND CHANGES IN FUND CASH BALANCES
ALL PROPRIETARY FUND TYPES AND SIMILAR FIDUCIARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2011**

	Proprietary Fund Types		Fiduciary Fund Type		Total (Memorandum Only)
	Enterprise	Internal Service	Non Expendable Trust	Agency	
OPERATING CASH RECEIPTS:					
Food Services	\$ 244,332	\$ 0	\$ 0	\$ 0	\$ 244,332
Charges for Services	0	113,146	0	0	113,146
Investment Income	0	0	145	6	151
Other Operating Revenues	0	0	3,177	72,325	75,502
Total Operating Cash Receipts	<u>244,332</u>	<u>113,146</u>	<u>3,322</u>	<u>72,331</u>	<u>433,131</u>
OPERATING CASH DISBURSEMENTS:					
Salaries	189,852	0	0	0	189,852
Fringe Benefits	152,463	0	0	0	152,463
Purchased Services	17,856	110,216	0	0	128,072
Materials and Supplies	212,610	0	0	0	212,610
Capital Outlay	4,192	0	0	0	4,192
Other Operating Expenses	0	0	3,250	68,541	71,791
Total Operating Cash Disbursements	<u>576,973</u>	<u>110,216</u>	<u>3,250</u>	<u>68,541</u>	<u>758,980</u>
Operating Income (Loss)	<u>(332,641)</u>	<u>2,930</u>	<u>72</u>	<u>3,790</u>	<u>(325,849)</u>
NON OPERATING CASH RECEIPTS/(DISBURSEMENTS)					
Federal and State Subsidies	308,725	0	0	0	308,725
Interest	187	50	0	0	237
Total Non Operating Cash Receipts/(Disbursements)	<u>308,912</u>	<u>50</u>	<u>0</u>	<u>0</u>	<u>308,962</u>
Excess Cash Receipts Over/(Under) Cash Disbursements	<u>(23,729)</u>	<u>2,980</u>	<u>72</u>	<u>3,790</u>	<u>(16,887)</u>
Fund Cash Balances, July 1, 2010	<u>207,354</u>	<u>36,775</u>	<u>141,491</u>	<u>23,937</u>	<u>409,557</u>
Fund Cash Balances, June 30, 2011	<u>\$ 183,625</u>	<u>\$ 39,755</u>	<u>\$ 141,563</u>	<u>\$ 27,727</u>	<u>\$ 392,670</u>
Reserve for encumbrances	<u>\$ 3,287</u>	<u>\$ 0</u>	<u>\$ 1,500</u>	<u>\$ 668</u>	<u>\$ 5,455</u>

See accompanying notes to the financial statements.

**NORTHWESTERN LOCAL SCHOOL DISTRICT
WAYNE COUNTY, OHIO
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. DESCRIPTION OF THE ENTITY

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

Average daily membership on, or as of, October 1, 2010 was 1,427. The District employs 110 certified and 68 non-certified employees. The District is supervised by the Tri-County Educational Service Center, a separate entity.

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

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

B. BASIS OF ACCOUNTING

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

C. CASH

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

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

**NORTHWESTERN LOCAL SCHOOL DISTRICT
WAYNE COUNTY, OHIO
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. FUND ACCOUNTING

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

Governmental Funds

General Fund - The General Fund is the general operating fund of the District. It is used to account for all financial resources except those required to be accounted for in another fund.

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

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

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

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

Education Jobs - This fund accounts is to provide compensation and benefits and other expenses, such as support services, necessary to retain existing employees, to recall or rehire former employees, and to hire new employees, in order to provide early childhood, elementary or secondary educational and related services.

State Fiscal Stabilization Fund - This fund is to support and restore State funding for elementary, secondary, post-secondary education and as applicable early childhood programs.

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

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

**NORTHWESTERN LOCAL SCHOOL DISTRICT
WAYNE COUNTY, OHIO
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. FUND ACCOUNTING

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

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

Proprietary Funds

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

Food Service Fund - This fund assists the District in administering food services that provide healthful, nutritious meals to eligible children.

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

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

Private Purpose Trust Funds

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

Leo Welty Scholarship Fund - This fund accounts for scholarships.

**NORTHWESTERN LOCAL SCHOOL DISTRICT
WAYNE COUNTY, OHIO
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. FUND ACCOUNTING

Agency Funds

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

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

E. BUDGETARY PROCESS

Tax Budget

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

Appropriations

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

Estimated Resources

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

**NORTHWESTERN LOCAL SCHOOL DISTRICT
WAYNE COUNTY, OHIO
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E. BUDGETARY PROCESS (continued)

Encumbrances

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

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

A summary of 2011 budgetary activity appears in Note 3.

F. PROPERTY, PLANT AND EQUIPMENT

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

G. ACCUMULATED LEAVE

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

H. TOTAL COLUMNS ON FINANCIAL STATEMENTS

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

2. CASH AND INVESTMENTS

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

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

**NORTHWESTERN LOCAL SCHOOL DISTRICT
WAYNE COUNTY, OHIO
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011**

2. CASH AND INVESTMENTS (continued)

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

Under existing Ohio statutes all investment earnings are assigned to the General Fund unless statutorily required to be credited to a specific fund. For the District, all investment earnings are receipts in the General Fund, School Support Fund, Maintenance Fund, Student Activities Fund, Permanent Improvement Fund, Ohio School Facilities Fund, Food Service Fund, Dental Insurance Fund, and various trust funds, as authorized by board resolution. Interest income earned in fiscal year 2011 totaled \$5,653.

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

Cash on Hand	\$	115
Demand Deposits		39,782
STAR Ohio		4,974,962
Certificate of Deposit		11,000
Total Deposits and Investments		\$ 5,025,859

3. BUDGETARY ACTIVITY

Budgetary activity for the year ending June 30, 2011 is as follows:

2011 Budgeted vs Actual Receipts			
	Budget	Actual	Variance
	Receipts	Receipts	
General	\$ 12,060,970	\$ 11,793,330	\$ (267,640)
Special Revenue	2,203,137	2,184,329	(18,808)
Debt Service	868,000	814,104	(53,896)
Capital Projects	260,000	246,414	(13,586)
Enterprise	582,750	553,244	(29,506)
Internal Service	112,800	113,196	396
Private Purpose Trust	6,723	3,322	(3,401)

2011 Appropriation vs Actual Budgetary Basis Expenditures			
	Appropriation	Budgetary	Variance
	Authority	Expenditures	
General	\$ 11,968,453	\$ 11,169,917	\$ 798,536
Special Revenue	2,351,927	2,351,020	907
Debt Service	791,932	791,932	0
Capital Projects	354,875	354,875	0
Enterprise	623,622	580,260	43,362
Internal Service	128,500	110,216	18,284
Private Purpose Trust	11,625	4,750	6,875

**NORTHWESTERN LOCAL SCHOOL DISTRICT
WAYNE COUNTY, OHIO
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011**

4. PROPERTY TAXES

Property taxes are levied, assessed and collected on a calendar year basis. They include amounts levied against all real, public utility, and tangible personal property located in the District. Taxes collected on real property (other than public utility) in one calendar year are levied in the preceding calendar year on assessed values as of January 1 of that preceding year, the lien date. Assessed values are established by the Wayne and Ashland County Auditors at 35% of appraised market value. All property is required to be revalued every six years. The last revaluation for the District was completed in 2008; an update will be done in 2011. The next revaluation is scheduled for 2014.

Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31. If paid semi-annually, the first payment is usually due December 31, with the remainder payable June 20. Taxes collected from tangible personal property (other than public utility) in one calendar year are levied in the prior calendar year on assessed values during and at the close of the most recent fiscal year of the taxpayer that ended on or before December 31 of that calendar year.

Public utility real and public utility personal property taxes collected in one calendar year are levied in the preceding calendar year on assessed values determined as of December 31 of the second year preceding the tax collection year, the lien date. Real property is assessed at 35% of market value and personal property is assessed at 100% of market value. Public utility property taxes are payable on the same dates as real property taxes described previously.

Tangible personal property tax revenues received in calendar year 2010 (other than public utility property) represent the collection of calendar year 2010 taxes levied against local and inter-exchange telephone companies. Tangible personal property tax on business inventory, manufacturing machinery and equipment, and furniture and fixtures is no longer levied and collected. The October 2008 tangible personal property tax settlement was the last property tax settlement for general personal property taxes. Tangible personal property taxes received from telephone companies in calendar year 2010 were levied after October 1, 2009, on the value as of December 31, 2009. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the District prior to June 30.

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 telecommunication companies, and railroads. The tax on general business and railroad property was eliminated by calendar year 2009, and the tax on telephone and telecommunications property will be eliminated by calendar year 2011. The tax is phased out by reducing the assessment rate on the property each year. The bill replaces the revenue lost by the District due to the phasing out of the tax. In calendar years 2006-2010, the District will be fully reimbursed for the lost revenue. In calendar years 2011-2017, the reimbursements will be phased out.

**NORTHWESTERN LOCAL SCHOOL DISTRICT
WAYNE COUNTY, OHIO
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011**

4. PROPERTY TAXES (continued)

The Wayne and Ashland County Treasurers collect property taxes on behalf of the District. The Wayne and Ashland County Auditors remit the collected taxes to the District. Tax settlements are made each March and August for real property taxes and each June and October for personal property.

The full tax rate at the fiscal year ended June 30, 2011 for operations was \$32.60 per \$1,000 of assessed valuation, permanent improvements, \$2.80 per \$1,000 of assessed valuation and bond debt service, \$6.20 per \$1,000 of assessed valuation. The assessed values of real and tangible personal property on which the fiscal year 2011 taxes were collected were as follows:

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

	2009				
	Real Property		Tangible Personal Property		Total Valuation
	Residential/ Agriculture	Commercial/ Industrial	PUCO Personal	Telephone PP	
Wayne County	\$ 116,701,500	\$ 9,250,360	\$ 2,793,680	\$ 419,463	
Ashland County	6,521,740	186,250	294,910	64,990	7,067,890
Grand Total	<u>\$ 123,223,240</u>	<u>\$ 9,436,610</u>	<u>\$ 3,088,590</u>	<u>\$ 484,453</u>	<u>\$ 136,232,893</u>

5. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

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

**NORTHWESTERN LOCAL SCHOOL DISTRICT
WAYNE COUNTY, OHIO
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011**

5. DEFINED BENEFIT PENSION PLANS (continued)

Funding Policy - Plan members are required to contribute 10% of their annual covered salary and the District is required to contribute 14% of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board. The Retirement Board acting with the advice of the actuary, allocates the employer contribution rate among four of the funds (Pension Trust Fund, Death Benefit Fund, Medicare B Plan, and Health Care Fund) of the System. For fiscal year ending June 30, 2011, the allocation to pension and death benefits is 11.81%. The remaining 2.19% of the 14% employer contribution rate is allocated to Health Care and Medicare B Fund. The District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2011, 2010 and 2009 were \$308,418, \$280,056, and \$280,476, respectively; 100% has been contributed for all fiscal years.

B. State Teachers Retirement System

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

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on a member's contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5% of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the DB Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

**NORTHWESTERN LOCAL SCHOOL DISTRICT
WAYNE COUNTY, OHIO
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011**

5. DEFINED BENEFIT PENSION PLANS (continued)

Funding Policy - For the fiscal year ended June 30, 2011, plan members were required to contribute 10% of their annual covered salaries. The District was required to contribute 14%; 13% was the portion used to fund pension obligations. For fiscal year 2011, the portion used to fund pension obligations was also 13%. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The District's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2011, 2010, and 2009 were \$757,404, \$808,428, and \$832,260, respectively; 100% has been contributed for all fiscal years.

6. POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

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

Medicare Part B Plan - The Medicare B plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Ohio Revised Code (ORC) 3309.69. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B monthly premium for calendar year 2010 was \$96.40 for most participant, but could be as high as \$369.10 per month depending on their monthly income; SERS' reimbursement to retirees was \$45.50. The Retirement Board, acting with the advice of the actuary, allocates a portion of the current employer contribution rate to the Medicare B Fund. For fiscal year 2011, the actuarially required allocation was .76%.

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

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

**NORTHWESTERN LOCAL SCHOOL DISTRICT
WAYNE COUNTY, OHIO
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011**

6. POST-EMPLOYMENT BENEFITS (continued)

The Health Care Fund was established under, and is administered in accordance with Internal Revenue Code 105(e). Each year after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer 14% contribution to the Health Care Fund. At June 30, 2011, the health care allocation was 1.43%. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statutes provide that no employer shall pay a health care surcharge greater than 2% of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5% of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2011, the minimum compensation level was established at \$35,800. For the School during fiscal year the amount to \$45,761.

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

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

A. State Teachers Retirement System

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

Funding Policy – Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2009 (latest information available), STRS Ohio allocated employer contributions equal to 1 % of covered payroll to the Health Care Stabilization Fund. The District's contributions for health care for the fiscal years ended June 30, 2011, 2010, and 2009 were \$54,100, \$57,745, and \$59,447, respectively; 100% has been contributed for all fiscal years.

**NORTHWESTERN LOCAL SCHOOL DISTRICT
WAYNE COUNTY, OHIO
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011**

7. GENERAL LONG-TERM DEBT OBLIGATIONS

	Outstanding 7/1/2010	Additions	Deletions	Outstanding 6/30/2011
General Obligation Bonds:				
1994 Bond (4.5% to 7.2%)	\$ 330,000	\$ 0	\$ 330,000	\$ 0
2004 Refunding (1.5% to 5.75%)	2,655,000	0	20,000	2,635,000
Various Improvement Bonds:				
3% - due July 1, 2023	2,885,000	0	135,000	2,750,000
	<u>\$ 5,870,000</u>	<u>\$ 0</u>	<u>\$ 485,000</u>	<u>\$ 5,385,000</u>

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

On October 15, 2003, the District issued \$2,995,000 refunded general obligation bonds. The proceeds of the bonds were used to refund in advance of their maturity the December 1, 2006 and December 1, 2016 maturities totaling \$2,995,000 of the District's general obligation bonds, Series 1994. This refunding was done to achieve interest cost savings. Proceeds of the bonds were used to establish an irrevocable escrow account. Funds in the escrow account were invested in special direct obligations of the United States Treasury or other obligations of the United States government or its agencies. The escrow securities and their earnings are structured to pay the principal and interest on the refunded 1994 bonds as such payments become due, until the call dates of the respective refunded bonds, at which time the escrow pays the principal of the refunded bonds at a price of par plus interest. Since these bonds have been placed in irrevocable trust, they are considered defeased for these financial statements. The advance refunding resulted in a difference between reacquisition price and the net carrying amount of the old debt of \$357,935. The economic gain is \$254,510. The annual requirement to amortize all debt outstanding as of June 30, 2011 is as follows:

Fiscal Year	School Improvement Bonds	Various Improvement Bonds	Total
2012	\$ 493,367	\$ 280,671	\$ 774,038
2013	503,142	279,221	782,363
2014	512,892	277,361	790,253
2015	515,377	279,996	795,373
2016	534,275	276,206	810,481
2017-2021	540,094	1,383,930	1,924,024
2022-2027	0	1,106,178	1,106,178
Total Principal and Interest	3,099,147	3,883,563	6,982,710
Less interest	(464,147)	(1,133,563)	(1,597,710)
Total Principal	<u>\$ 2,635,000</u>	<u>\$ 2,750,000</u>	<u>\$ 5,385,000</u>

**NORTHWESTERN LOCAL SCHOOL DISTRICT
WAYNE COUNTY, OHIO
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011**

8. SET ASIDES

The District is required by State statute to annually set aside monies for purchase of textbooks and other instructional materials, and for capital improvements. The amounts set-aside may be reduced by offset credits, which are monies received and restricted for the same specific purpose. Although the District had offsets and/or qualifying disbursements during the year that reduced the set-aside amounts below zero, these extra amounts were only used to reduce the set-aside requirements of future years for the purchase of textbooks and/or instructional materials. Amounts not spent by year-end or reduced by offset credits must be held in cash at year-end and carried forward to be used for the same purposes in futures years.

	Budget Stabilization Reserve	Capital Improvement Reserve	Textbook/ Instructional Materials Reserve
Set Aside Cash Balance as of June 30, 2010	\$ 173,531	\$ 0	\$ 0
Current Year Set Aside Requirement	0	211,150	211,150
Current Year Qualifying Expenditures	0	(485,000)	(211,764)
Excess Qualified Expenditures From Prior Years	0	0	(41,294)
Total	<u>\$ 173,531</u>	<u>\$ (273,850)</u>	<u>\$ (41,908)</u>
 Balance Carried Forward to Fiscal Year 2012	 <u>\$ 173,531</u>	 <u>\$ 0</u>	 <u>\$ (41,908)</u>
 Set Aside Reserve Balance June 30, 2011	 <u>\$ 173,531</u>	 <u>\$ 0</u>	 <u>\$ 0</u>

9. FUND TRANSFERS

During the fiscal year 2011, the District transferred out from the General Fund \$41,000 to the Management Information System Fund for subsidy of normal operations. The applicable Ohio Revised Code compliance requirements were met.

**NORTHWESTERN LOCAL SCHOOL DISTRICT
WAYNE COUNTY, OHIO
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011**

10. JOINTLY GOVERNED ORGANIZATION

TRI-COUNTY COMPUTER SERVICES ASSOCIATION (TCCSA)

The Tri-County Computer Services Association (TCCSA) is a jointly governed organization comprised of 21 school districts. The jointly governed organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions for member districts. Each of the governments of these districts supports TCCSA based on per pupil charge dependent upon the software package utilized. The TCCSA assembly consists of a superintendent or designated representative from each participating district and a representative from the fiscal agent. TCCSA is governed by a board of directors chosen from the general membership of the TCCSA assembly. The board of directors consists of a representative from the fiscal agent, the chairman of each operating committee, and at least an assembly member from each county from which participating districts are located. Financial information can be obtained by contacting the Treasurer at the Tri-County Educational Service Center, which is the fiscal agent, located at 741 Winkler Drive, Wooster, OH 44691. During the year ended June 30, 2011, the District paid approximately \$52,250 to TCCSA for basic service charges.

11. RISK MANAGEMENT

A. Property and Liability

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

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

B. Workers Compensation

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

**NORTHWESTERN LOCAL SCHOOL DISTRICT
WAYNE COUNTY, OHIO
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011**

11. RISK MANAGEMENT (continued)

C. Dental Insurance

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

12. PUBLIC ENTITY RISK POOL

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

13. CONTINGENT LIABILITIES

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

The District received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally require compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2011.

14. COMPLIANCE

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

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Rea & Associates, Inc.

ACCOUNTANTS AND BUSINESS CONSULTANTS

Focused on Your Future.

August 11, 2011

Board of Education
Northwestern Local School District
West Salem, OH 44287

**Independent Auditor's Report on Internal Control Over
Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed
in Accordance with *Government Auditing Standards***

We have audited the financial statements of Northwestern Local School District, Wayne County, (the "District") as of and for the year ended June 30, 2011, and have issued our report thereon dated August 11, 2011, with an adverse opinion on the School District's accompanying financial statements because they do not present fairly the financial position, results of operations, and cash flows, where applicable, in accordance with accounting principles generally accepted in the United States of America. 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 District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

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

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

Compliance and Other Matters

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* which is described in the accompanying schedule of findings and questioned costs as item 2011-001.

We also noted certain matters that we reported to the District's management in a separate letter dated August 11, 2011.

The District's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the District's response and, accordingly, we do not express an opinion on it.

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

Rea & Associates, Inc.



Rea & Associates, Inc.

ACCOUNTANTS AND BUSINESS CONSULTANTS

Focused on Your Future.

August 11, 2011

Board of Education
Northwestern Local School District
West Salem, OH 44287

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

Compliance

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

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

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

Internal Control Over Compliance

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

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

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

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

Hea & Associates, Inc.

**NORTHWESTERN LOCAL SCHOOL DISTRICT
WAYNE COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2011**

1. SUMMARY OF AUDITOR'S RESULTS

A-133 Ref.
.505(d)

(d) (1) (i)	Type of Financial Statement Opinion	Adverse
(d) (1) (ii)	Were there any significant deficiencies or material weaknesses reported at the financial statement level (GAGAS)?	No
(d) (1) (ii)	Were there any other internal control deficiencies reported at the financial statement level (GAGAS)?	No
(d) (1) (iii)	Was there any reported material non-compliance at the financial statement level (GAGAS)?	Yes
(d) (1) (iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d) (1) (iv)	Were there any other significant deficiencies reported for major programs?	No
(d) (1) (v)	Type of Major Programs' Compliance Opinion	Unqualified
(d) (1) (vi)	Are there any reportable findings under Section 510(a) of Circular A-133?	No
(d) (1) (vii)	Major Programs (list): Title I Cluster Special Education Cluster State Fiscal Stabilization Fund Child Nutrition Cluster Education Jobs Fund	CFDA # 84.010 & 84.389 (ARRA) CFDA # 84.027 & 84.391 (ARRA) CFDA # 84.394 (ARRA) CFDA # 10.553 & 10.555 CFDA # 84.410
(d) (1) (viii)	Dollar Threshold: Type A/B Programs	Type A: >\$300,000 Type B: All others
(d) (1) (ix)	Low Risk Auditee?	Yes

**NORTHWESTERN LOCAL SCHOOL DISTRICT
WAYNE COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2011**

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

Material Non-Compliance

FINDING NUMBER	2011-001
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Criteria: Ohio Rev. Code Section 117.38 provides that each public office shall file a financial report for each fiscal year. The auditor of state may prescribe forms by rule or may issue guidelines, or both, for such reports. If the auditor of state has not prescribed a rule regarding the form for the report, the public office shall submit its report on the form utilized by the public office. Ohio Administrative Code Section 117-2-03 further clarifies the requirements of Ohio Rev. Code 117.38

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

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

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

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

Cause: For fiscal year 2011, the District prepared its financial statements in accordance with standards established by the Auditor of State for governmental entities not required to prepare annual reports in accordance with generally accepted accounting principles. The accompanying financial statements and notes omit assets, liabilities, fund equities, and disclosures that, while material, cannot be determined at this time.

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

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

**NORTHWESTERN LOCAL SCHOOL DISTRICT
WAYNE COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2011**

FINDING NUMBER	2011-001 (continued)
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Management's Response:

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

3. FINDINGS FOR FEDERAL AWARDS

NONE	
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**NORTHWESTERN LOCAL SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CASH BASIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

Federal Grantor/ Pass Through Grantor/ Program Title	CFDA Number	Grant Number	Federal Receipts	Federal Disbursements	Non-Cash Disbursements
U. S. Department of Education					
(Passed Through Ohio Department of Education):					
<i>Title I Cluster</i>					
Title I	84.010	2011	\$ 241,787	\$ 241,787	\$ 0
Title I: ARRA	84.389	2011	<u>61,292</u>	<u>61,292</u>	<u>0</u>
Total Title I Cluster			303,079	303,079	0
<i>Special Education Cluster</i>					
IDEA-B	84.027	2011	284,532	284,532	0
IDEA-B: ARRA	84.391	2011	<u>65,722</u>	<u>141,615</u>	<u>0</u>
Total Special Education Cluster			350,254	426,147	0
Title II-D	84.318	2011	806	806	0
Title II-A	84.367	2011	58,803	58,803	0
State Fiscal Stabilization Fund: ARRA	84.394	2011	537,288	537,288	0
Education Jobs Fund	84.410	2011	412,762	412,762	0
Total Passed Through Ohio Department of Education			<u>1,662,992</u>	<u>1,738,885</u>	<u>0</u>
(Passed Through Ohio Partner in Character Education):					
Title V-D: Character Education	84.215S	2010	500	3,918	0
Total Passed Through Ohio Partner in Character Education			<u>500</u>	<u>3,918</u>	<u>0</u>
Total U.S. Department of Education			<u>1,663,492</u>	<u>1,742,803</u>	<u>0</u>
U. S. Department of Agriculture					
(Passed Through Ohio Department of Education):					
<i>Nutrition Cluster</i>					
Cash Assistance:					
School Breakfast Program	(A) 10.553	2011	<u>49,173</u>	<u>49,173</u>	<u>0</u>
Total School Breakfast Program			49,173	49,173	0
Non-Cash Assistance:					
National School Lunch Program	(B) 10.555	2011	50,497	0	50,497
Cash Assistance:					
National School Lunch Program	(A) 10.555	2011	<u>252,751</u>	<u>252,751</u>	<u>0</u>
Total National School Lunch Program			303,248	252,751	50,497
Total Nutrition Cluster			<u>352,421</u>	<u>301,924</u>	<u>50,497</u>
Total U.S. Department of Agriculture			352,421	301,924	50,497
Total Federal Assistance			<u>\$ 2,015,913</u>	<u>\$ 2,044,727</u>	<u>\$ 50,497</u>

See accompanying Notes to the Schedule of Expenditures of Federal Awards

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

*Notes to the Schedule of Expenditures of Federal Awards – Cash Basis
For the Fiscal Year Ended June 30, 2011*

Note A - Child Nutrition Cluster

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

Note B – Food Donation Program

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

Note C - Transfers

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

CFDA Number	Program Title	Program Year	Transfer Out	Transfer In
84.389	Title I - ARRA	2010	\$ 61,292	
84.389	Title I - ARRA	2011		\$ 61,292
84.391	IDEA-B - ARRA	2010	141,615	
84.391	IDEA-B - ARRA	2011		141,615

**NORTHWESTERN LOCAL SCHOOL DISTRICT
WAYNE COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2011**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:
2010-001	Ohio Admin. Code Section 117-2-03(B) , Prepare Annual Financial Report in Accordance with Generally Accepted Accounting Principles	No	Repeated as Finding 2011-001



Rea & Associates, Inc.

ACCOUNTANTS AND BUSINESS CONSULTANTS

Focused on Your Future.

August 11, 2011

To the Board of Education
Northwestern Local School District
West Salem, OH 44287

Independent Accountant's Report on Applying Agreed-Upon Procedures

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

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

1. We noted the District did not amend its anti-harassment policy to include violence within a dating relationship within its definition of harassment, intimidation or bullying. Ohio Rev. Code Section 3313.666 required the Board to amend its definition by September 28, 2010.

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

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

Rea & Associates, Inc.

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Dave Yost • Auditor of State

NORTHWESTERN LOCAL SCHOOL DISTRICT

WAYNE COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
NOVEMBER 10, 2011**