

NORTHWESTERN LOCAL SCHOOL DISTRICT

WAYNE COUNTY, OHIO

AUDIT REPORT

For the Year Ended June 30, 2007

Charles E. Harris and Associates, Inc.
Certified Public Accountants and Government Consultants



Mary Taylor, CPA
Auditor of State

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

We have reviewed the *Report of Independent Accountants* of the Northwestern Local School District, Wayne County, prepared by Charles E. Harris & Associates, 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 Northwestern Local School District is responsible for compliance with these laws and regulations.

Mary Taylor

Mary Taylor, CPA
Auditor of State

January 23, 2008

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NORTHWESTERN LOCAL SCHOOL DISTRICT
WAYNE COUNTY, OHIO
Audit Report
For the year ended June 30, 2007

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Charles E. Harris & Associates, Inc.
Certified Public Accountants

REPORT OF INDEPENDENT ACCOUNTANTS

Northwestern Local School District
Wayne County
7571 North Elyria Road
West Salem, Ohio 44287

To the Board of Education:

We have audited the accompanying financial statements of the Northwestern Local School District, Wayne County, Ohio (the District), as of and for the year ended June 30, 2007. 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 *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 opinion.

Ohio Administrative Code 117-2-03 (B) requires the District to prepare its financial report in accordance with accounting principles generally accepted in the United States of America. However, as discussed in Note 1, the accompanying financial statements and notes have been prepared on a basis of accounting 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, cannot be determined 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 Northwestern Local School District as of and for the year ended June 30, 2007 in accordance with accounting principles generally accepted in the United States of America.

The District 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 have issued our report dated October 10, 2007, on our consideration of Northwestern Local 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. That report describes the scope of our testing of internal control over financial reporting and compliance and the results of testing. It does not opine on the internal control over financial reporting or compliance. That report is the integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in considering the results of our audit.

We conducted our audit to opine on the District's financial statements. The Federal Awards Expenditure Schedule 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, 2007, or the 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 Federal Awards Expenditure Schedule.

Charles E. Harris & Associates, Inc.
October 10, 2007

NORTHWESTERN LOCAL SCHOOL DISTRICT
WAYNE COUNTY, OHIO
COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND CHANGES IN FUND CASH BALANCES
ALL GOVERNMENTAL FUND TYPES
For the Year Ended June 30, 2007

	Governmental Fund Types				(Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects	Total
CASH RECEIPTS:					
Taxes	\$ 3,777,863	\$ 47,664	\$ 830,826	\$ 205,458	\$ 4,861,811
Intergovernmental	6,427,014	664,858	107,658	27,969	7,227,499
Investment Income	77,952	15,185	-	118,719	211,856
Tuition and Fees	668,318	-	-	-	668,318
Extracurricular Activities	-	348,596	-	-	348,596
Classroom Materials & Fees	48,242	-	-	-	48,242
Donations	-	5,550	-	-	5,550
Miscellaneous	24,051	23,651	-	42,804	90,506
Total Cash Receipts	11,023,440	1,105,504	938,484	394,950	13,462,378
CASH DISBURSEMENTS:					
Instruction:					
Regular	5,130,267	72,240	-	-	5,202,507
Special	730,952	533,710	-	-	1,264,662
Vocational	565,444	-	-	-	565,444
Other	359,712	9,755	-	-	369,467
Support Services:					
Pupils	338,798	115,654	-	-	454,452
Instructional Staff	614,487	23,135	-	-	637,622
Board of Education	28,026	-	-	-	28,026
Administration	845,698	37,007	-	-	882,705
Fiscal	264,621	21,038	18,308	4,990	308,957
Operation of Maintenance and Plant	1,002,047	48,025	-	-	1,050,072
Pupil Transportation	767,374	4,992	-	-	772,366
Central	29,099	33,622	-	-	62,721
Operation of Non-Instructional Services	1,200	1,965	-	-	3,165
Extracurricular Activities	231,386	188,326	-	-	419,712
Capital Outlay	-	-	-	279,604	279,604
Debt Service:					
Retirement of Principal	-	-	345,000	-	345,000
Interest and Fiscal Charges	-	-	386,651	-	386,651
Total Cash Disbursements	10,909,111	1,089,469	749,959	284,594	13,033,133
Cash Receipts Over/(Under) Cash Disbursements	114,329	16,035	188,525	110,356	429,245
Other Financing Sources (Uses)					
Transfers In	-	65,000	-	-	65,000
Transfers Out	(65,000)	-	-	-	(65,000)
Total Other Financing Sources (Uses)	(65,000)	65,000	-	-	-
Excess of Cash Receipts and Other Financing Sources Over (Under) Cash Disbursements and Other Financing Uses	49,329	81,035	188,525	110,356	429,245
Fund Cash Balance, July 1, 2006 (Note 15)	1,322,249	290,443	1,470,303	543,284	3,626,279
Fund Cash Balance, June 30, 2007	\$ 1,371,578	\$ 371,478	\$ 1,658,828	\$ 653,640	\$ 4,055,524
Reserve for Encumbrances	\$ 112,892	\$ 77,056	\$ -	\$ 138,729	\$ 328,677

See Accompanying Notes to the Financial Statements

NORTHWESTERN LOCAL SCHOOL DISTRICT
WAYNE COUNTY, OHIO
COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND CHANGES IN FUND CASH BALANCES
ALL PROPRIETARY FUND TYPES AND SIMILAR FIDUCIARY FUNDS
For the Year Ended June 30, 2007

	Proprietary Fund Types		Fiduciary Fund Types		(Memorandum Only) Total
	Enterprise	Internal Service	Private Purpose Trust	Agency	
OPERATING CASH RECEIPTS:					
Food Services	\$ 280,207	-	-	-	\$ 280,207
Charges for Services	-	\$ 115,665	-	\$ 4,727,763	4,843,428
Interest	-	-	\$ 7,743	-	7,743
Extracurricular Activities	-	-	4,620	67,710	72,330
Total Operating Cash Receipts	280,207	115,665	12,363	4,795,473	5,203,708
OPERATING CASH DISBURSEMENTS					
Salaries	166,026	-	-	5,500	171,526
Fringe Benefits	109,559	-	-	4,697,698	4,807,257
Purchased Services	18,851	107,773	-	433,365	559,989
Materials and Supplies	207,057	-	-	-	207,057
Other Operating Expenses	-	-	8,800	72,567	81,367
Total Operating Cash Disbursements	501,493	107,773	8,800	5,209,130	5,827,196
Operating Income (Loss)	(221,286)	7,892	3,563	(413,657)	(623,488)
NON OPERATING CASH RECEIPTS (DISBURSEMENTS)					
Federal and State Subsidies	233,650	-	-	-	233,650
Interest	7,548	2,215	-	6,933	16,696
Miscellaneous	188	-	500	-	688
Total Non Operating Cash Receipts (Disbursements)	241,386	2,215	500	6,933	251,034
Excess of Cash Receipts Over/(Under) Cash Disbursements	20,100	10,107	4,063	(406,724)	(372,454)
Fund Cash Balance, July 1, 2006 (Note 15)	137,703	34,007	145,872	697,599	1,015,181
Fund Cash Balance, June 30, 2007	\$ 157,803	\$ 44,114	\$ 149,935	\$ 290,875	\$ 642,727
Reserve for Encumbrances	\$ 2,532	\$ -	\$ 600	\$ 2,183	\$ 5,315

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, 2007**

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, 2006 was 1,463. The District employs 98 certified and 74 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, 2007

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

1. 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.

2. 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.

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.

Starting FY2007, four expendable trust funds were reclassified as Special Revenue funds because these accounted for the school district's own programs and from which the original contribution could be spent. (See Note 15.)

3. 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, 2007

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

D. **FUND ACCOUNTING** (continued)

4. **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.

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

Ohio School Facilities Commission Project Fund- This fund is designed for major renovations and repairs of school facilities.

Proprietary Funds

5. **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.

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

6. **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.

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

7. **Private Purpose Trust Funds**

Private Purpose Trust Funds are used to account for contributions which are limited to benefiting individuals, other organizations, or other governments.

Leo Welty Scholarship Fund – This fund is to account for scholarships.

NORTHWESTERN LOCAL SCHOOL DISTRICT
WAYNE COUNTY, OHIO
Notes To The Financial Statements
For the Year Ended June 30, 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. FUND ACCOUNTING (continued)

8. Agency Funds

Agency Funds are used account for assets held by the District, as an agent for individuals, private organizations or other governmental units and/or other funds.

Insurance Consortium Fund-This fund accounts for monies for the Wayne County Schools Consortium. The District is the fiscal agent for the Consortium.

E. BUDGETARY PROCESS

1. 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.

2. 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 for the General Fund, Permanent Improvement Fund, Bond Retirement Fund and Special Revenue-Maintenance Fund and for all other funds combined. The budget figures in Note 3 represent the final appropriation amounts including all amendments and modifications.

NORTHWESTERN LOCAL SCHOOL DISTRICT
WAYNE COUNTY, OHIO
Notes To The Financial Statements
For the Year Ended June 30, 2007

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

E. **BUDGETARY PROCESS** (continued)

3. **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.

4. **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 2007 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.

NORTHWESTERN LOCAL SCHOOL DISTRICT
WAYNE COUNTY, OHIO
Notes To The Financial Statements
For the Year Ended June 30, 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Investments." During the fiscal year, all investments were limited to Federal agency bonds and notes, certificates of deposit, the State Treasury Asset Reserve of Ohio (STAR Ohio) and repurchase agreements.

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.

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, 2007.

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 accrue to the General Fund, School Support Fund, Maintenance Fund, Student Activities Fund, Permanent Improvement Fund, Ohio School Facilities Fund, Food Service Fund, Dental Insurance Fund, Insurance Consortium Fund, and various trust funds, as authorized by board resolution. Interest income earned in fiscal year 2007 totaled \$236,295.

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:

	<u>2007</u>
Demand Deposits	\$ 218,343
STAR-Ohio	4,468,908
Certificate of Deposit	<u>11,000</u>
Total Deposit and Investments	<u>\$4,698,251</u>

NORTHWESTERN LOCAL SCHOOL DISTRICT
WAYNE COUNTY, OHIO
Notes To The Financial Statements
For the Year Ended June 30, 2007

3. BUDGETARY ACTIVITY

Budgetary activity for the year ending June 30, 2007 is as follows:

	<u>2007 Budgeted vs. Actual Receipts</u>		
	<u>Estimated</u>		
	<u>Receipts</u>	<u>Actual Receipts</u>	<u>Variance</u>
General	\$ 10,874,200	\$ 11,023,440	\$ 149,240
Special Revenue	1,310,287	1,170,504	(139,783)
Debt Service	970,000	938,484	(31,516)
Capital Projects	303,000	394,950	91,950
Enterprise	523,130	521,593	(1,537)
Internal Service	121,500	117,880	(3,620)
Private Purpose Trust	8,935	12,863	3,928
Total	<u>\$ 14,111,052</u>	<u>\$ 14,179,714</u>	<u>\$ 68,662</u>

	<u>2007 Budgeted vs. Actual Budgetary Basis Expenditures</u>		
	<u>Appropriation</u>	<u>Budgetary</u>	<u>Variance</u>
	<u>Authority</u>	<u>Expenditures</u>	
General	\$ 11,474,798	\$ 11,087,003	\$ 387,795
Special Revenue	1,049,213	1,166,525	(117,312)
Debt Service	749,959	749,959	0
Capital Projects	788,130	423,323	364,807
Enterprise	513,453	504,025	9,428
Internal Service	107,500	107,773	(273)
Private Purpose Trust	19,625	9,400	10,225
Total	<u>\$ 14,702,678</u>	<u>\$ 14,048,008</u>	<u>\$ 654,670</u>

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 2002; an update was done in 2006. The next revaluation is scheduled for 2008.

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. Tangible personal property used in business (except for public utilities) is currently assessed for taxation purposes at 25% of its true value. Amounts paid by multi-county taxpayers may pay annually or semi-annually, the first payment is due April 30, with the remainder payable by September 28.

**NORTHWESTERN LOCAL SCHOOL DISTRICT
WAYNE COUNTY, OHIO**

**Notes To The Financial Statements
For the Year Ended June 30, 2007**

4. PROPERTY TAXES (continued)

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.

The Wayne and Ashland County Treasurers collects property taxes on behalf of the District. The Wayne and Ashland County Auditors remits 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, 2007 for operations was \$23.60 per \$1,000 of assessed valuation, permanent improvements, \$2.80 per \$1,000 of assessed valuation and bond debt service, \$7.20 per \$1,000 of assessed valuation. The assessed values of real and tangible personal property on which the fiscal year 2007 taxes were collected were as follows:

	<u>Wayne County</u>	
	<u>2006</u>	<u>2005</u>
Real Property		
Residential/Agricultural	\$100,445,570	\$98,680,900
Commercial/Industrial/Public Utilities	9,435,110	9,328,700
Tangible Personal Property		
General	5,980,880	6,683,900
Public Utilities	<u>4,770,800</u>	<u>4,946,000</u>
Total Valuation	<u>\$120,632,360</u>	<u>\$119,639,500</u>
	 <u>Ashland County</u> 	
	<u>2006</u>	<u>2005</u>
Real Property		
Residential/Agricultural	\$5,346,580	\$4,933,850
Commercial/Industrial/Public Utilities	108,670	104,120
Tangible Personal Property		
General	25,980	36,380
Public Utilities	<u>546,180</u>	<u>590,650</u>
Total Valuation	<u>\$6,027,410</u>	<u>\$5,665,000</u>

**NORTHWESTERN LOCAL SCHOOL DISTRICT
WAYNE COUNTY, OHIO
Notes To The Financial Statements
For the Year Ended June 30, 2007**

5. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The School District contributes to the School Employees Retirement System (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 E. Broad Street, Columbus, Ohio 43215.

Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for the fiscal year 2007 (the latest information available), 10.68% of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS Retirement Board. The School District's contributions for pension obligations to SERS for the fiscal years ended June 30, 2007, 2006, and 2005 were \$265,452, \$248,346, and \$233,412, respectively; 100 percent for all fiscal years.

B. State Teachers Retirement System

The District contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer public employer retirement system administered by the State Teachers Retirement Board. STRS provides basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. Authority to establish and amend benefits is provided by state statute per Chapter 3307 of Ohio Revised Code. STRS issues a publicly available financial report that includes financial statements and required supplementary information for STRS. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771.

New members have a choice of three retirement plans, a Defined Benefit (DB) plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor.

The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment.

**NORTHWESTERN LOCAL SCHOOL DISTRICT
WAYNE COUNTY, OHIO
Notes To The Financial Statements
For the Year Ended June 30, 2007**

5. DEFINED BENEFIT PENSION PLANS (continued)

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 Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. 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 dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

For the fiscal year ended June 30, 2007 (the latest information available), plan members are required to contribute 10 percent of their annual covered salary. The School District is required to contribute 14 percent; 13% was the portion used to fund pension obligations. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for members and employers contributions. The School District's required contributions for pension obligations to STRS for the fiscal years ended June 30, 2007, 2006, and 2005 were \$779,436, \$713,916, and \$676,632, respectively; 100 percent has been contributed for all fiscal years.

6. 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. All benefit recipients and sponsored dependents are eligible for health care coverage. Benefit provisions and the obligation to contribute are established by the Systems based on authority granted by State statute. Most benefit recipients are required to pay a portion of the health care costs in the form of a monthly premium. Both systems are funded on a pay-as-you-go basis.

The State Teachers Retirement 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 Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. For the year ended June 30, 2007 (the latest information available) the Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the School District, this amount equaled \$55,411 during fiscal year 2007.

NORTHWESTERN LOCAL SCHOOL DISTRICT
WAYNE COUNTY, OHIO
Notes To The Financial Statements
For the Year Ended June 30, 2007

6. POSTEMPLOYMENT BENEFITS (continued)

STRS pays health care benefits from the Health Care Reserve Fund. The balance in the Fund was \$3.5 billion at June 30, 2006 (the latest information available). For the year ended June 30, 2006, total health care costs paid by STRS were \$282,743,000 and STRS had 119,184 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more years of qualifying service credit, and disability and survivor benefit recipients. 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 the federal poverty levels. Premiums are reduced by 50% for those who apply.

For the year ended June 30, 2007 (the latest information available) 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 ended June 30, 2007, the minimum pay has been established at \$35,800. The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund.

The target level for the health care reserve is 150 percent of annual health care expenses. Net expenses for health care at June 30, 2006 (the latest information available), were \$158,751,000. At June 30, 2006, SERS had net assets available for payment of health care benefits of \$295.6 million. SERS has approximately 59,492 participants currently receiving health care benefits. For the School District, the amount to fund health care benefits, including the surcharge, equaled \$59,717 during the 2007 fiscal year.

7. GENERAL LONG-TERM DEBT OBLIGATIONS

	<u>Outstanding June 30, 2006</u>	<u>Additions</u>	<u>Deductions</u>	<u>Outstanding June 30, 2007</u>
General Obligation Bonds				
1.5% to 5.75%	\$2,945,000	-	\$230,000	\$2,715,000
4.5% to 7.2%	1,135,000	-	-	1,135,000
Various Improvement Bonds				
3.00% Due July 1, 2023	<u>3,365,000</u>	-	<u>115,000</u>	<u>3,250,000</u>
Totals	<u>\$7,445,000</u>	<u>-</u>	<u>\$345,000</u>	<u>\$7,100,000</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.

NORTHWESTERN LOCAL SCHOOL DISTRICT
WAYNE COUNTY, OHIO
Notes To The Financial Statements
For the Year Ended June 30, 2007

7. GENERAL LONG-TERM DEBT OBLIGATIONS (continued)

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, 2007:

Year Ending <u>June 30,</u>	School Improvement <u>Bonds</u>	School Improvement <u>Bonds</u>	Various Improvement <u>Bonds</u>	<u>Total</u>
2008	\$313,080	\$155,943	\$282,350	\$751,373
2009	319,900	155,343	277,460	752,703
2010	334,560	154,743	277,313	766,616
2011	341,880	154,143	281,721	777,744
2012	-	493,368	280,670	774,038
2013-2017	-	2,605,780	1,388,785	3,994,565
2018-2022	-	-	1,383,326	1,383,326
2023-2025	-	-	<u>830,770</u>	<u>830,770</u>
Total Principal and Interest	1,309,420	3,719,320	5,002,395	10,031,135
Less Interest	<u>174,420</u>	<u>1,004,320</u>	<u>1,752,395</u>	<u>2,931,135</u>
Total Principal	<u>\$1,135,000</u>	<u>\$2,715,000</u>	<u>\$3,250,000</u>	<u>\$7,100,000</u>

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 School District had offsets and/or qualifying disbursements during the year that reduced the set-aside amounts below zero, these extra amounts may only be used to reduce the set-aside requirements of future years for the purchase of textbooks and/or instructional materials. The District chose not to carry forward the negative balance for the textbooks. 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 future years.

During the fiscal year ended June 30, 2007, the reserve activity was as follows:

**NORTHWESTERN LOCAL SCHOOL DISTRICT
WAYNE COUNTY, OHIO
Notes To The Financial Statements
For the Year Ended June 30, 2007**

8. SET ASIDES (continued)

	Budget Stabilization Reserve	Capital Improvement Reserve	Textbook/ Instructional Material Reserve	Total
Set Aside Balance, 6/30/06	\$ 172,311	-	-	\$ 172,311
Current Year Set Aside Requirement	-	\$ 216,554	216,554	433,108
Qualifying Disbursements		(284,594)	(243,633)	(528,227)
Total	<u>172,311</u>	<u>(68,040)</u>	<u>(27,079)</u>	<u>77,192</u>
Cash Balance Carried Forward to Fiscal Year 2008	<u>\$ 172,311</u>			<u>\$ 172,311</u>
Total Restricted Assets				<u>\$ 172,311</u>

9. SCHOOL FUNDING DECISION

On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school funding decision is unconstitutional.

The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school funding scheme that is thorough and efficient...".

The District is currently unable to determine what effect, if any, this decision will have on its future State funding and on its financial operations.

10. FUND TRANSFERS

In 2006, the District transferred out from the General Fund \$65,000 to the EMIS Fund for subsidy of normal operations.

All applicable Ohio Revised Code compliance requirements were met.

11. 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, 2007, the District paid approximately \$48,167 to TCCSA for basic service charges.

**NORTHWESTERN LOCAL SCHOOL DISTRICT
WAYNE COUNTY, OHIO
Notes To The Financial Statements
For the Year Ended June 30, 2007**

12. RISK MANAGEMENT

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 Hartford Insurance Company. The deductible is \$5,000 per incident on property and \$1,000 per incident on equipment. All vehicles are also insured with the Hartford Insurance Company and have a \$1,000 deductible. All board members, administrators and employees are covered under a school district liability policy with Nationwide Insurance Company. The limits of coverage are \$1,000,000 per occurrence and \$3,000,000 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 and superintendent have a \$20,000 position bond with Nationwide 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.

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.

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, 2007.

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.

15. PRIOR PERIOD ADJUSTMENTS

In compliance with Auditor of State Bulletin 2006-006, the prior period fund balances of the following funds were adjusted:

**NORTHWESTERN LOCAL SCHOOL DISTRICT
WAYNE COUNTY, OHIO
Notes To The Financial Statements
For the Year Ended June 30, 2007**

15. PRIOR PERIOD ADJUSTMENTS (continued)

	Expendable Trust	Non-Expend. Trust	Special Revenue Funds	Private Purpose Trust
Fund Balance 6/30/06	\$ 138,427	\$ 8,904	\$ 288,984	\$ -
Fund Reclassification	(138,427)	(8,904)	1,459	145,872
Fund Balance 7/1/06	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 290,443</u>	<u>\$ 145,872</u>

Northwestern Local School District
Schedule of Federal Awards Expenditures
For the Year Ending June 30, 2007

Federal Grantor/Pass Through Grantor Number/Program Title	CFDA Number	Federal Receipts	Federal Expenditures
<u>U.S. Department of Agriculture</u>			
Pass through Ohio Department of Development:			
Nutrition Cluster:			
National School Lunch Program	10.555	\$ 186,329	\$ 186,329
Breakfast Program	10.553	33,990	33,990
Summer Food Service Program	10.559	<u>4,914</u>	<u>4,914</u>
Total Nutrition Cluster		225,233	225,233
Food Distribution	10.550	<u>39,342</u>	<u>39,342</u>
Total U.S. Department of Agriculture		264,575	264,575
<u>U.S. Department of Education</u>			
Pass through Ohio Department of Education:			
Title I - Financial Assistance to Meet Special Education Needs of Disadvantaged Children			
Title I	84.010	135,830	135,830
Title VI - B, Special Education - Assistance to States for Education of Handicapped Children			
Title VI - B	84.027	319,310	319,310
Vocational Education			
Basic Education for States	84.048	10,000	10,000
Drug - Free School Grant			
Drug - Free School Grant - FY05	84.186	4,561	4,561
Character Education Grant			
Character Education Grant	84.215	45,000	37,021
Innovative Education Program Strategies			
Innovative Education Program Strategies	84.298	2,049	2,049
Technology Literacy Challenge Grant			
Virtual Learning Review Project	84.318	1,413	1,413
Title II-A			
Title II-A	84.367	<u>51,834</u>	<u>51,834</u>
Total U.S. Department of Education		569,997	562,018
<u>U.S. Department of Health and Human Services</u>			
Pass Through Ohio Department of Mental Retardation and Developmental Disabilities:			
Medicaid Title XIX	93.778	<u>22,850</u>	<u>22,850</u>
Total U.S. Department of Health and Human Services		<u>22,850</u>	<u>22,850</u>
Total Federal Expenditures		<u>\$ 857,422</u>	<u>\$ 849,443</u>

See accompanying Notes to the Schedule of Federal Awards Expenditures

NORTHWESTERN LOCAL SCHOOL DISTRICT
Wayne County, Ohio
Notes to the Federal Awards Expenditure Schedule
For the Year Ended June 30, 2007

1. Significant Accounting Policies

The accompanying schedule of federal awards expenditures is a summary of the activity of the District's federal award programs. The schedule has been prepared on the cash basis of accounting. Consequently, certain revenues are recognized when received rather than when earned, and certain expenditures are recognized when paid rather than when the obligation is incurred.

2. Food Distribution

Nonmonetary assistance is reported in the schedule at fair market value of the commodities received and disbursed. Monies are commingled with State grants. It is assumed federal monies are expended first. At June 30, 2007, the District had immaterial food commodities in inventory.

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Charles E. Harris & Associates, Inc.
Certified Public Accountants

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS REQUIRED BY
GOVERNMENT AUDITING STANDARDS**

Northwestern Local School District
Wayne County
7571 North Elyria Road
West Salem, Ohio 44287

To the Board of Education:

We have audited the financial statements of the Northwestern Local School District, Wayne County, Ohio (District) as of and for the year ended June 30, 2007, and have issued our report thereon dated October 10, 2007, which was adverse due to the District not filing financial statements in accordance with generally accepted accounting principles. 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 Controls Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

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 District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control. We consider the deficiencies described in the accompanying schedule of findings, items 2007-NWLSD-01 and 02 to be significant deficiencies in internal control over financial reporting.

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 District's internal control.

Our consideration of the 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 the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. We believe the significant deficiencies described above to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters, 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, which are described in the accompanying schedule of findings as items 2007-NWLS-01 and 02.

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

We noted certain matters that we have reported to management of the District in a separate letter dated October 10, 2007.

This report is intended 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.

Charles E. Harris & Associates, Inc.

October 10, 2007

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Charles E. Harris & Associates, Inc.
Certified Public Accountants

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

Northwestern Local School District
Wayne County
7571 North Elyria Road
West Salem, Ohio 44287

To the Board of Education:

Compliance

We have audited the compliance of the Northwestern Local School District, Wayne County (District), with the types of compliance requirements described in *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2007. The District's major federal program is 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 its major federal program is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

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

Internal Control Over Compliance

The management of the 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 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, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over compliance.

A control deficiency in internal control over compliance exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent or detect noncompliance with a federal program compliance requirement on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the District's ability to administer a federal program such that there is more than a likelihood that the District's internal control will not prevent or detect more-than-inconsequential noncompliance with a federal program compliance requirement.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that the District's internal control will not prevent or detect material noncompliance with a federal program's compliance requirements.

Our consideration of the internal control over compliance was for 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 for the information and use of management, the Board of Education, federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Charles E. Harris & Associates, Inc.
October 10, 2007

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 SECTION .505**

**NORTHWESTERN LOCAL SCHOOL DISTRICT
WAYNE COUNTY
June 30, 2007**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	<i>Type of Financial Statement Opinion</i>	Adverse
(d)(1)(ii)	<i>Were there any material control weaknesses reported at the financial statement level (GAGAS)?</i>	Yes
(d)(1)(ii)	<i>Were there any other significant deficiencies reported at the financial statement level (GAGAS)?</i>	Yes
(d)(1)(iii)	<i>Was there any reported material non-compliance at the financial statement level (GAGAS)?</i>	Yes
(d)(1)(iv)	<i>Were there any material internal control weaknesses reported for major federal programs?</i>	No
(d)(1)(iv)	<i>Were there any other significant deficiencies reported for major federal programs?</i>	No
(d)(1)(v)	<i>Type of Major Programs' Compliance Opinion</i>	Unqualified
(d)(1)(vi)	<i>Are there any reportable findings under Section .510</i>	No
(d)(1)(vii)	<i>Major Programs:</i>	Special Education - Title VI-B 84.027
(d)(1)(viii)	<i>Dollar Threshold: Type A\B Programs</i>	Type A: > \$300,000 Type B: all others
(d)(1)(ix)	<i>Low Risk Auditee?</i>	Yes

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (continued)
OMB CIRCULAR A-133 SECTION .505

NORTHWESTERN LOCAL SCHOOL DISTRICT
WAYNE COUNTY
June 30, 2007

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

FINDING NUMBER 2007-NWLSO-01 – Non-compliance and Material Weakness

Ohio Administrative Code 117-2-03 (B) requires the District to prepare its financial report in accordance with generally accepted accounting principles. However, as discussed in Note 1, the accompanying financial statements and notes have been prepared on a basis of accounting 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, cannot be determined at this time. The District can be fined and various other administrative remedies may be taken against the District.

The District does not intend to report in accordance with generally accepted accounting principles.

FINDING NUMBER 2007-NWLSO-02 - Non-compliance and Material Weakness

Ohio Rev. Code 5705.38(C) requires the following minimum level of budgetary control for “subdivisions” other than schools: “Appropriation measures shall be classified so as to set forth separately the amounts appropriated for each office, department, and division, and, within each, the amount appropriated for personal services.”

Ohio Admin. Code 117-6-02 prescribes the following for school districts’ legal level of control: At a minimum, appropriation measures shall be classified to set forth separately the amounts appropriated by fund. The appropriation measure as passed by the school board shall be the legal level of control. This is the level at which compliance with statutory budgetary requirements will be determined.

The District appropriated only for the General Fund, Bond Retirement Fund, Permanent Improvement Fund and Special Revenue - Maintenance Fund. The remaining funds, including most Special Revenue Funds, Enterprise Funds and Private Purpose Trust Funds were group together as “All other funds”.

We recommend that the District follow Ohio Admin. Code 117-6-02 requirements in appropriating funds.

Management indicated this is how they have been budgeting for years and that it is the preferred way for the county auditor. They will review the procedure in the future.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS
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None.

**NORTHWESTERN LOCAL SCHOOL DISTRICT
WAYNE COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2007**

FINDING NUMBER	FUNDING SUMMARY	FULLY CORRECTED?	Not Corrected. Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain
2006-NWLSD-01	Ohio Administrative Code Section 117-2-03 (B)-The District did not report their financial statements on the GAAP basis	No	Not Corrected-See Finding 2007-NWLSD-01
2006-NWLSD-02	Ohio Revised Code Section 5705.41(B)- The District had expenditures exceeding appropriations.	No	Partially corrected. Included in management letter.



Mary Taylor, CPA
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
FEBRUARY 5, 2008