



Dave Yost • Auditor of State

**NORTHWEST LOCAL SCHOOL DISTRICT
STARK COUNTY**

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Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Northwest Local School District
Stark County
2309 Locust Street South
Canal Fulton, Ohio 44614

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Northwest Local School District, Stark County, Ohio (the District), as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in 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 our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Northwest Local School District, Stark County, Ohio, as of June 30, 2012, and the respective changes in financial position thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 16, 2013, 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.

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis* as listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any other assurance.

We conducted our audit to opine on the financial statements that collectively comprise the District's basic financial statements taken as a whole. The Federal Awards Receipts and Expenditure Schedule provides additional information required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. The Federal Awards Receipts and Expenditure Schedule is management's responsibility, and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. The Federal Awards Receipts and Expenditure Schedule was subject to auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling this information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, in accordance with auditing standards generally accepted in the United States of America. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Dave Yost
Auditor of State

January 16, 2013

**NORTHWEST LOCAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

The management's discussion and analysis of the Northwest Local School District's ("the District") financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2012. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the District's financial performance.

Financial Highlights

Key financial highlights for fiscal year 2012 are as follows:

- In total, net assets of governmental activities increased \$1,523,163 during fiscal year 2012, an increase of 4.79% from 2011.
- General revenues accounted for \$18,852,376 in revenue or 87.70% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$2,644,181 or 12.30% of total revenues of \$21,496,557.
- The District had \$19,973,394 in expenses related to governmental activities; only \$2,644,181 of these expenses were offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$18,852,376 were adequate to provide for these programs.
- The District has two major governmental funds. They are the general fund and classroom facilities fund. The general fund had \$18,243,525 in revenues and other financing sources and \$16,399,143 in expenditures. During fiscal year 2012, the general fund's fund balance increased \$1,844,479 from a deficit of \$855,880 to a balance of \$987,599.
- The classroom facilities fund had \$9,233,764 in revenues and \$17,094,026 in expenditures. During fiscal year 2012, the classroom facilities fund's fund balance decreased \$7,860,262 from \$15,061,446 to \$7,201,184.

Using these Basic Financial Statements (BFS)

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the District as a financial whole, an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities.

The *statement of net assets* and *statement of activities* provide information about the activities of the whole District, presenting both an aggregate view of the District's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the District's most significant funds with all other nonmajor funds presented in total in one column. In the case of the District, the general fund and classroom facilities fund are by far the most significant funds, and the only governmental funds reported as major funds.

**NORTHWEST LOCAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

Reporting the District as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains the large number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2012?" The statement of net assets and the statement of activities answer this question. These statements include *all non-fiduciary assets, liabilities, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

The statement of net assets and the statement of activities, include the District's programs and services, including instruction, support services, operation and maintenance of plant, pupil transportation, extracurricular activities, and food service operations.

The District's statement of net assets and statement of activities can be found on pages 15-16 of this report.

Reporting the District's Most Significant Funds

Fund Financial Statements

The analysis of the District's major governmental funds begins on page 9. Fund financial reports provide detailed information about the District's major funds. The District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the District's most significant funds. The District's major governmental funds are the general fund and classroom facilities fund; all other governmental funds are considered non-major.

Governmental Funds

Most of the District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial assets* that can readily be converted to cash. The governmental fund financial statements provide a detailed *short-term* view of the District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental *activities* (reported in the statement of net assets and the statement of activities) and governmental *funds* is reconciled in the basic financial statements. The basic governmental fund financial statements can be found on pages 17-21 of this report.

Reporting the District's Fiduciary Responsibilities

The District acts in a trustee capacity as an agent for students. These activities are reported in an agency fund. All of the District's fiduciary activities are reported in a separate statement of fiduciary net assets on page 22. These activities are excluded from the District's other financial statements because the assets cannot be utilized by the District to finance its operations.

**NORTHWEST LOCAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 23-55 of this report.

The District as a Whole

The statement of net assets provides the perspective of the District as a whole.

The table below provides a summary of the District's net assets for 2012 and 2011.

	Net Assets	
	Governmental Activities <u>2012</u>	Governmental Activities <u>2011</u>
<u>Assets</u>		
Current and other assets	\$ 24,677,984	\$ 39,818,722
Capital assets, net	<u>45,252,414</u>	<u>28,814,132</u>
Total assets	<u>69,930,398</u>	<u>68,632,854</u>
<u>Liabilities</u>		
Current liabilities	12,273,904	11,454,170
Long-term liabilities	<u>24,339,111</u>	<u>25,384,464</u>
Total liabilities	<u>36,613,015</u>	<u>36,838,634</u>
<u>Net assets</u>		
Invested in capital assets, net of related debt	26,030,480	8,296,986
Restricted	9,616,228	27,370,194
Unrestricted (deficit)	<u>(2,329,325)</u>	<u>(3,872,960)</u>
Total net assets	<u>\$ 33,317,383</u>	<u>\$ 31,794,220</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2012, the District's assets exceeded liabilities by \$33,317,383. Of this total, \$9,616,228 is restricted in use leaving the District with an unrestricted net assets deficit of \$2,329,325.

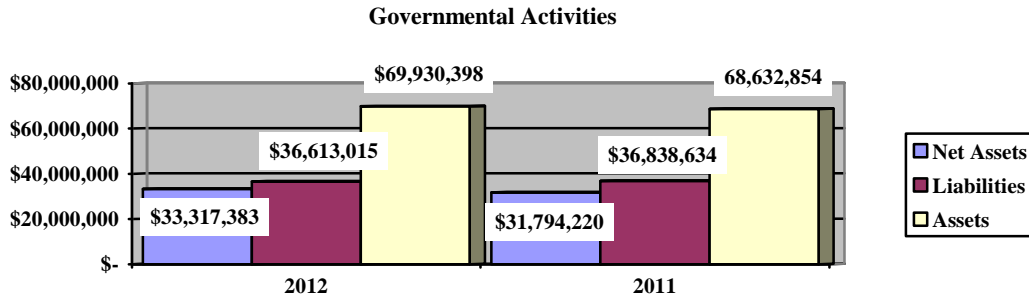
At year-end, capital assets represented 64.71% of total assets. The significant increase in capital assets is a result of the District's on-going construction project. This also resulted in a corresponding decrease in current and other assets as the District expended cash for the project. Capital assets include land, construction in progress, land improvements, buildings and improvements, furniture and equipment and vehicles. Capital assets, net of related debt to acquire the assets at June 30, 2012, were \$26,030,480. These capital assets are used to provide services to the students and are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

**NORTHWEST LOCAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

A portion of the District's net assets, \$9,616,228 represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets is a deficit of \$2,329,325.

The graph below presents the District's assets, liabilities and net assets for fiscal years 2012 and 2011.



The table below shows the change in net assets for fiscal years 2012 and 2011.

Change in Net Assets

	Governmental Activities 2012	Governmental Activities 2011
<u>Revenues</u>		
Program revenues:		
Charges for services and sales	\$ 842,392	\$ 1,049,368
Operating grants and contributions	1,801,426	3,336,223
Capital grants and contributions	363	1,036
General revenues:		
Property taxes	7,371,413	8,240,116
Income taxes	2,096,753	371,872
Grants and entitlements	9,316,317	9,356,834
Investment earnings	14,409	19,847
Miscellaneous	53,484	38,523
Total revenues	<u>21,496,557</u>	<u>22,413,819</u>

--continued

**NORTHWEST LOCAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

Change in Net Assets - (Continued)

	<u>Governmental Activities 2012</u>	<u>Governmental Activities 2011</u>
<u>Expenses</u>		
Program expenses:		
Instruction:		
Regular	\$ 8,887,190	\$ 8,908,997
Special	2,075,490	2,548,149
Vocational	201,605	185,233
Other	150,023	122,402
Support services:		
Pupil	679,371	787,859
Instructional staff	169,417	151,222
Board of education	91,529	125,115
Administration	1,794,862	1,688,365
Fiscal	496,239	440,837
Operations and maintenance	2,088,845	3,373,434
Pupil transportation	1,085,670	1,027,089
Central	308,700	259,465
Food service operations	708,360	667,368
Other non-instructional services	113,840	100,154
Extracurricular activities	407,094	351,888
Interest and fiscal charges	<u>715,159</u>	<u>1,009,349</u>
Total expenses	<u>19,973,394</u>	<u>21,746,926</u>
Change in net assets	1,523,163	666,893
Net assets at beginning of year	<u>31,794,220</u>	<u>31,127,327</u>
Net assets at end of year	<u>\$ 33,317,383</u>	<u>\$ 31,794,220</u>

Governmental Activities

Net assets of the District's governmental activities increased \$1,523,163. Total governmental expenses of \$19,973,394 were offset by program revenues of \$2,644,181 and general revenues of \$18,852,376. Program revenues supported 13.24% of the total governmental expenses.

The primary sources of revenue for governmental activities are derived from taxes and unrestricted grants and entitlements. These revenue sources represent 87.38% of total governmental revenue. Overall, revenues decreased slightly, which is primarily due to a decrease in program revenues, specifically operating grants and contributions. This decrease is largely the result of the elimination of Federal ARRA grants that the District received during fiscal years 2010 and 2011. The decrease in property taxes revenue is primarily the result of differences in the amount of taxes available to the District for advance at fiscal year-end. This amount can vary from year-to-year based on the date the tax bills are sent. During fiscal year 2011, the District began collecting income taxes revenue from the new levy. The increased revenue for fiscal year 2012 is a result of the District collecting a full year of income taxes revenue.

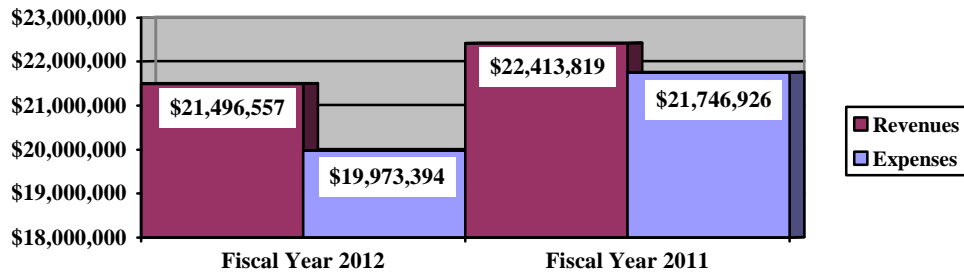
**NORTHWEST LOCAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

The largest expense of the District is for instructional programs. Instruction expenses totaled \$11,314,308 or 56.65% of total governmental expenses for fiscal year 2012. The decrease in expenses is primarily related to the elimination of programs supported by ARRA grant funding in prior years.

The graph below presents the District's governmental activities revenues and expenses for fiscal years 2012 and 2011.

Governmental Activities - Revenues and Expenses



The statement of activities shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted grants and entitlements.

Governmental Activities

	Total Cost of Services <u>2012</u>	Net Cost of Services <u>2012</u>	Total Cost of Services <u>2011</u>	Net Cost of Services <u>2011</u>
Program expenses				
Instruction:				
Regular	\$ 8,887,190	\$ 8,522,392	\$ 8,908,997	\$ 7,565,342
Special	2,075,490	1,109,200	2,548,149	1,306,778
Vocational	201,605	155,465	185,233	139,093
Other	150,023	150,023	122,402	122,402
Support services:				
Pupil	679,371	502,987	787,859	609,431
Instructional staff	169,417	169,417	151,222	104,572
Board of education	91,529	91,529	125,115	125,115
Administration	1,794,862	1,794,654	1,688,365	1,683,365
Fiscal	496,239	496,239	440,837	440,837
Operations and maintenance	2,088,845	2,087,957	3,373,434	2,983,026
Pupil transportation	1,085,670	1,034,338	1,027,089	955,411
Central	308,700	216,873	259,465	112,936
Food service operations	708,360	27,147	667,368	(10,648)
Other non-instructional services	113,840	2,952	100,154	(12,930)
Extracurricular activities	407,094	252,881	351,888	226,220
Interest and fiscal charges	715,159	715,159	1,009,349	1,009,349
Total	<u>\$ 19,973,394</u>	<u>\$ 17,329,213</u>	<u>\$ 21,746,926</u>	<u>\$ 17,360,299</u>

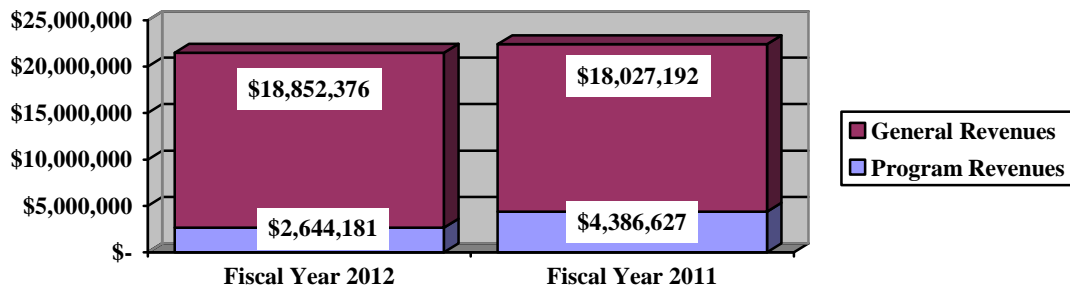
**NORTHWEST LOCAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

The dependence upon tax and other general revenues for governmental activities is apparent, 87.83% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 86.76%. The District's taxpayers and unrestricted grants and entitlements, as a whole, are by far the primary support for District's students.

The graph below presents the District's governmental activities revenue for fiscal years 2012 and 2011.

Governmental Activities - General and Program Revenues



The District's Funds

Fund balances for the District's governmental funds (as presented on the balance sheet on page 17) decreased significantly due to expenditures in the classroom facilities fund for the District's construction project. The District's governmental funds reported a combined fund balance of \$9,446,005, compared to last year's combined fund balance of \$15,817,459. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2012 and 2011.

	Fund Balance <u>June 30, 2012</u>	Fund Balance (Deficit) <u>June 30, 2011</u>	Increase (Decrease)
General	\$ 987,599	\$ (855,880)	\$ 1,843,479
Classroom facilities	7,201,184	15,061,446	(7,860,262)
Other governmental	<u>1,257,222</u>	<u>1,611,893</u>	<u>(354,671)</u>
Total	<u>\$ 9,446,005</u>	<u>\$ 15,817,459</u>	<u>\$ (6,371,454)</u>

**NORTHWEST LOCAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

General Fund

The table that follows assists in illustrating the financial activities of the general fund.

	2012 <u>Amount</u>	2011 <u>Amount</u>	Increase (Decrease)	Percentage <u>Change</u>
<u>Revenues</u>				
Taxes	\$ 8,151,283	\$ 6,928,245	\$ 1,223,038	17.65 %
Tuition	80,124	172,612	(92,488)	(53.58) %
Earnings on investments	1,019	1,145	(126)	(11.00) %
Intergovernmental	9,718,745	9,694,959	23,786	0.25 %
Other revenues	<u>269,962</u>	<u>374,874</u>	<u>(104,912)</u>	<u>(27.99) %</u>
Total	<u>\$ 18,221,133</u>	<u>\$ 17,171,835</u>	<u>\$ 1,049,298</u>	6.11 %
<u>Expenditures</u>				
Instruction	\$ 9,710,341	\$ 10,349,489	\$ (639,148)	(6.18) %
Support services	6,323,662	5,323,583	1,000,079	18.79 %
Extracurricular activities	247,394	208,826	38,568	18.47 %
Debt service	<u>117,746</u>	<u>35,054</u>	<u>82,692</u>	235.90 %
Total	<u>\$ 16,399,143</u>	<u>\$ 15,916,952</u>	<u>\$ 482,191</u>	3.03 %

The most significant change in general fund revenues was taxes, which increased due to a full year of collections on the District's income tax levy. Tuition revenue decreased due to the District receiving less in open enrollment revenue. Classroom fees, included in other revenues on the table above, decreased in fiscal year 2012, particularly the District's pay to participate fees.

A decrease in wages and benefits costs, due to a decrease in staff, helped lead to decreased instruction expenditures. This did not translate to a decrease in support services expenditures, however, as operations and maintenance and pupil transportation costs increased significantly. These increases are primarily the result of higher costs for fuel and utilities, and also for upkeep of the District's buildings. In addition, the District had more equipment purchases from the general fund in fiscal year 2012. Debt service expenditures for the general fund represents interest payments on the District's energy conservation notes.

Classroom Facilities Fund

The classroom facilities fund accounts for the District's OSFC construction project, and had \$9,233,764 in revenues and \$17,094,026 in expenditures. During fiscal year 2012, the classroom facilities fund's fund balance decreased \$7,860,262 from \$15,061,446 to \$7,201,184.

General Fund Budgeting Highlights

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

For the general fund, original and final budgeted revenues and other financing sources were \$17,419,149 and actual revenues and other financing sources for fiscal year 2012 were \$17,748,363. This represents a \$329,214 increase from the final budgeted amounts, which is mostly due to higher than anticipated taxes and intergovernmental revenues.

**NORTHWEST LOCAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

General fund original appropriations (appropriated expenditures) were \$17,417,209 and final appropriations were \$17,417,211. The actual budget basis expenditures for fiscal year 2012 totaled \$17,108,116, which is \$309,095 less than the final budget appropriations.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2012, the District had \$45,252,414 invested in land, construction in progress, land improvements, buildings and improvements, furniture and equipment and vehicles. This entire amount is reported in governmental activities. The following table shows fiscal year 2012 balances compared to 2011:

Capital Assets at June 30 (Net of Depreciation)		
<u>Governmental Activities</u>		
	<u>2012</u>	<u>2011</u>
Land	\$ 158,003	\$ 158,003
Construction in progress	21,588,579	4,494,553
Land improvements	246,306	259,949
Buildings and improvements	22,357,809	23,070,826
Furniture and equipment	631,211	682,958
Vehicles	<u>270,506</u>	<u>147,843</u>
Total	<u>\$ 45,252,414</u>	<u>\$ 28,814,132</u>

The overall increase in capital assets of \$16,438,282 is due to capital asset additions, primarily construction in progress, of \$17,359,104 exceeding depreciation expense of \$920,456 and disposals, net of accumulated depreciation, of \$366 during fiscal year 2012.

See Note 9 to the basic financial statements for additional information on the District's capital assets.

Debt Administration

At June 30, 2012, the District had \$18,558,325 in general obligation bonds, \$1,715,000 in energy conservation notes and \$2,657,000 in lease-purchase agreements outstanding. The general obligation bonds total includes \$1,407,521 in unamortized premium on the bond issue, less \$971,682 in unamortized deferred charges. Of the total outstanding debt, \$1,021,000 is due within one year and \$21,909,325 is due in more than one year. The following table summarizes the District's outstanding debt.

**NORTHWEST LOCAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

Outstanding Debt at Year End

	Governmental Activities <u>2012</u>	Governmental Activities <u>2011</u>
General obligation bonds (includes unamortized premium) and unamortized deferred charges)	\$ 18,558,325	\$ 19,409,663
Energy conservation notes	1,715,000	1,715,000
Lease-purchase agreement	<u>2,657,000</u>	<u>2,748,000</u>
Total	<u>\$ 22,930,325</u>	<u>\$ 23,872,663</u>

See Notes 10 and 11 to the basic financial statements for additional information on the District's debt administration.

Current Financial Related Activities

The District was able to generate \$465,188 in excess revenues which brought the ending general fund cash balance to \$1,956,449. This amount represents less than two months of normal operating expenditures.

A few items to note for fiscal year 2012 are:

- Fiscal year 2012 was the first full year of income tax collection. Many District residents are still working through the income tax process but the collected amount of \$1,372,090 was roughly 8% higher than projected in the 5 year forecast.
- For the first time in many years, real estate collections included more revenue from prior year's delinquencies than the amount in current year delinquencies.
- Revenue from open enrollment and expenditures for students attending a Community School both negatively affected the District's financial status. The number of students attending the District through open enrollment has remained fairly steady but the number of students leaving through open enrollment has increased thus lowering the amount of additional State Foundation funding received.
- During fiscal year 2012, the District purchased two new buses, one new van for student transportation and a skid steer loader.
- A 2% contingency payment was made according to the negotiated agreements.
- The District negotiated, through the Stark County ESC, a new natural gas contract that will save the District money on both gas and transportation costs.

A new 5 year forecast has been approved by the Board of Education. A deficit general fund cash balance is projected at the end of fiscal year 2017 following three years of deficit spending. In light of this, the District will seek to reduce spending where possible through attrition or retirements and creative solutions. Some of the key assumptions used in developing the forecast are:

- State Foundation funding has been reduced starting with the next biennial budget. Uncertainty still remains regarding the funding of Ohio schools through the new Bridge funding formula.

**NORTHWEST LOCAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

- Real estate tax revenue remains at the current reduced rate pending the next re-appraisal.
- The assumption that all levies are renewed at their current rates.
- A salary increase is included beginning in fiscal year 2015.

Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information contact Dan Levengood, Treasurer, Northwest Local School District, 2309 Locust Street S., Canal Fulton, Ohio 44614.

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**NORTHWEST LOCAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

STATEMENT OF NET ASSETS
JUNE 30, 2012

	Governmental Activities
Assets:	
Equity in pooled cash and cash equivalents . . .	\$ 12,301,425
Cash with escrow agent	541,220
Receivables:	
Taxes.	8,970,350
Accounts.	4,502
Intergovernmental	2,347,149
Accrued interest	2,345
Prepayments.	12,916
Materials and supplies inventory	69,580
Unamortized bond issuance costs	318,497
Restricted assets:	
Cash in segregated accounts	110,000
Capital assets:	
Land and construction in progress	21,746,582
Depreciable capital assets, net	23,505,832
Capital assets, net.	45,252,414
Total assets.	69,930,398
Liabilities:	
Accounts payable.	116,008
Contracts payable.	1,679,548
Retainage payable	541,220
Accrued wages and benefits	1,313,067
Pension obligation payable.	378,853
Intergovernmental payable	131,180
Accrued interest payable	54,985
Notes payable	936,609
Unearned revenue	7,122,434
Long-term liabilities:	
Due within one year.	1,180,254
Due in more than one year	23,158,857
Total liabilities	36,613,015
Net assets:	
Invested in capital assets, net of related debt.	26,030,480
Restricted for:	
Capital projects	8,005,102
Classroom facilities maintenance	255,427
Debt service.	1,265,607
Locally funded programs	827
State funded programs.	29,114
Federally funded programs	10,608
Food service operations.	49,543
Unrestricted (deficit)	(2,329,325)
Total net assets	\$ 33,317,383

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**NORTHWEST LOCAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

		Program Revenues			
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets Governmental Activities
Governmental activities:					
Instruction:					
Regular	\$ 8,887,190	\$ 210,399	\$ 154,399	\$ -	\$ (8,522,392)
Special	2,075,490	13,802	952,488	-	(1,109,200)
Vocational	201,605	-	46,140	-	(155,465)
Other	150,023	-	-	-	(150,023)
Support services:					
Pupil	679,371	-	176,384	-	(502,987)
Instructional staff	169,417	-	-	-	(169,417)
Board of education	91,529	-	-	-	(91,529)
Administration.	1,794,862	-	208	-	(1,794,654)
Fiscal.	496,239	-	-	-	(496,239)
Operations and maintenance.	2,088,845	525	-	363	(2,087,957)
Pupil transportation	1,085,670	-	51,332	-	(1,034,338)
Central	308,700	85,804	6,023	-	(216,873)
Operation of non-instructional services:					
Food service operations	708,360	393,297	287,916	-	(27,147)
Other non-instructional services	113,840	-	110,888	-	(2,952)
Extracurricular activities.	407,094	138,565	15,648	-	(252,881)
Interest and fiscal charges	715,159	-	-	-	(715,159)
Total governmental activities	\$ 19,973,394	\$ 842,392	\$ 1,801,426	\$ 363	(17,329,213)
 General revenues:					
Property taxes levied for:					
General purposes					5,927,182
Debt service.					1,111,727
Capital projects.					192,945
Special revenue					139,559
School District income tax					2,096,753
Grants and entitlements not restricted to specific programs					9,316,317
Investment earnings					14,409
Miscellaneous					53,484
Total general revenues					18,852,376
Change in net assets					1,523,163
Net assets at beginning of year.					31,794,220
Net assets at end of year					\$ 33,317,383

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**NORTHWEST LOCAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2012

	General	Classroom Facilities	Other Governmental Funds	Total Governmental Funds
Assets:				
Equity in pooled cash and cash equivalents	\$ 1,924,259	\$ 8,879,769	\$ 1,497,397	\$ 12,301,425
Cash with escrow agent	-	541,068	152	541,220
Receivables:				
Taxes	7,407,934	-	1,562,416	8,970,350
Accounts	4,502	-	-	4,502
Intergovernmental	3,151	2,311,727	32,271	2,347,149
Accrued interest	514	1,831	-	2,345
Due from other funds	158,379	-	-	158,379
Prepayments	12,916	-	-	12,916
Materials and supplies inventory	41,553	-	28,027	69,580
Restricted assets:				
Cash in segregated accounts	110,000	-	-	110,000
Total assets	\$ 9,663,208	\$ 11,734,395	\$ 3,120,263	\$ 24,517,866
Liabilities:				
Accounts payable	\$ 108,788	\$ -	\$ 7,220	\$ 116,008
Contracts payable	-	1,679,548	-	1,679,548
Retainage payable	-	541,068	152	541,220
Accrued wages and benefits	1,118,490	-	194,577	1,313,067
Compensated absences payable	81,741	-	-	81,741
Pension obligation payable	359,101	-	19,752	378,853
Intergovernmental payable	124,761	-	6,419	131,180
Due to other funds	-	-	158,379	158,379
Accrued interest payable	1,880	-	-	1,880
Notes payable	936,609	-	-	936,609
Deferred revenue	215,327	2,312,595	83,020	2,610,942
Unearned revenue	5,728,912	-	1,393,522	7,122,434
Total liabilities	8,675,609	4,533,211	1,863,041	15,071,861
Fund balances:				
Nonspendable:				
Materials and supplies inventory	41,553	-	28,027	69,580
Prepays	12,916	-	-	12,916
Restricted:				
Debt service	110,000	-	1,162,812	1,272,812
Capital improvements	-	7,201,184	-	7,201,184
Classroom facilities maintenance	-	-	255,427	255,427
Food service operations	-	-	43,155	43,155
Non-public schools	-	-	33,836	33,836
Other purposes	-	-	3,996	3,996
Committed:				
Capital improvements	-	-	50,132	50,132
Assigned:				
Student instruction	51,670	-	-	51,670
Student and staff support	122,837	-	-	122,837
School supplies	272	-	-	272
Unassigned (deficit)	648,351	-	(320,163)	328,188
Total fund balances	987,599	7,201,184	1,257,222	9,446,005
Total liabilities and fund balances	\$ 9,663,208	\$ 11,734,395	\$ 3,120,263	\$ 24,517,866

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**NORTHWEST LOCAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2012

Total governmental fund balances		\$ 9,446,005
<i>Amounts reported for governmental activities on the statement of net assets are different because:</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		45,252,414
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		
Taxes receivable	\$ 262,925	
Intergovernmental receivable	2,347,149	
Accrued interest receivable	868	
Total	2,610,942	2,610,942
Unamortized premiums on bond issuances are not recognized in the funds.		(1,407,521)
Unamortized issuance costs are not recognized in the funds.		318,497
Unamortized charges on refundings are not recognized in the funds.		971,682
Accrued interest payable on long-term debt is not due and payable in the current period and therefore is not reported in the funds.		(53,105)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.		
General obligation bonds and notes	(19,837,486)	
Compensated absences	(1,327,045)	
Lease-purchase obligations	(2,657,000)	
Total	(23,821,531)	(23,821,531)
Net assets of governmental activities		\$ 33,317,383

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**NORTHWEST LOCAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	<u>General</u>	<u>Classroom Facilities</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:				
From local sources:				
Taxes	\$ 8,151,283	\$ -	\$ 1,476,756	\$ 9,628,039
Tuition	80,124	-	-	80,124
Earnings on investments	1,019	13,847	671	15,537
Charges for services	-	-	393,297	393,297
Extracurricular	68,851	-	110,267	179,118
Classroom materials and fees	144,077	-	-	144,077
Other local revenues	57,034	-	18,084	75,118
Intergovernmental - intermediate	14,899	-	-	14,899
Intergovernmental - state	9,619,639	9,219,917	400,930	19,240,486
Intergovernmental - federal	84,207	-	1,098,500	1,182,707
Total revenues	<u>18,221,133</u>	<u>9,233,764</u>	<u>3,498,505</u>	<u>30,953,402</u>
Expenditures:				
Current:				
Instruction:				
Regular	7,752,805	-	497,994	8,250,799
Special	1,620,899	-	423,855	2,044,754
Vocational	186,614	-	-	186,614
Other	150,023	-	-	150,023
Support services:				
Pupil	481,437	-	206,342	687,779
Instructional staff	138,746	-	-	138,746
Board of education	91,529	-	-	91,529
Administration	1,816,577	-	220	1,816,797
Fiscal	460,478	12,129	31,448	504,055
Operations and maintenance	1,852,805	-	238,460	2,091,265
Pupil transportation	1,182,219	-	5,956	1,188,175
Central	299,871	-	7,200	307,071
Operation of non-instructional services:				
Food service operations	-	-	648,803	648,803
Other non-instructional services	-	-	105,277	105,277
Extracurricular activities	247,394	-	118,739	366,133
Facilities acquisition and construction	-	17,081,897	2,344	17,084,241
Debt service:				
Principal retirement	-	-	971,000	971,000
Interest and fiscal charges	117,746	-	593,806	711,552
Bond issuance costs	-	-	223,759	223,759
Total expenditures	<u>16,399,143</u>	<u>17,094,026</u>	<u>4,075,203</u>	<u>37,568,372</u>
Excess (deficiency) of revenues over (under) expenditures	<u>1,821,990</u>	<u>(7,860,262)</u>	<u>(576,698)</u>	<u>(6,614,970)</u>
Other financing sources (uses):				
Premium on refunding bonds sold	-	-	1,070,402	1,070,402
Sale of refunding bonds	-	-	14,620,942	14,620,942
Sale/loss of assets	22,392	-	-	22,392
Transfers in	-	-	470,000	470,000
Transfers (out)	-	-	(470,000)	(470,000)
Payment to refunding bond escrow agent	-	-	(15,467,585)	(15,467,585)
Total other financing sources (uses)	<u>22,392</u>	<u>-</u>	<u>223,759</u>	<u>246,151</u>
Net change in fund balances	1,844,382	(7,860,262)	(352,939)	(6,368,819)
Fund balances (deficit)				
at beginning of year	(855,880)	15,061,446	1,611,893	15,817,459
Decrease in reserve for inventory	(903)	-	(1,732)	(2,635)
Fund balances at end of year	<u>\$ 987,599</u>	<u>\$ 7,201,184</u>	<u>\$ 1,257,222</u>	<u>\$ 9,446,005</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**NORTHWEST LOCAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

Net change in fund balances - total governmental funds	\$	(6,368,819)
<i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceed depreciation expense in the current period.		
Capital asset additions	\$ 17,359,104	
Current year depreciation	(920,456)	
Total		16,438,648
The net effect of various miscellaneous transactions involving capital assets (i.e., sales, disposals, trade-ins, and donations) is to decrease net assets.		
		(366)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Taxes	(159,873)	
Intergovernmental revenue	(9,317,966)	
Earnings on investments	(1,032)	
Total		(9,478,871)
In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due. The following items resulted in additional interest being reported in the statement of activities:		
Decrease in accrued interest payable	22,479	
Accreted interest on capital appreciation bonds	(37,345)	
Amortization of bond premium	98,204	
Amortization of bond issuance costs	(27,953)	
Amortization of deferred charges	(58,992)	
Total		(3,607)
Proceeds from the sale of bonds are recorded as an other financing source in the governmental funds; however, in the statement of activities, they are not reported as an other financing source as they increase liabilities on the statement of net assets.		
		(14,620,942)
Principal payments on bonds and leases are reported as expenditures in governmental funds, but the repayment reduces long-term liabilities on the statement of net assets.		
		971,000
Payment to refunding bond escrow agent for the retirement of bonds is an other financing use in the governmental funds but the payment reduces long-term liabilities on the statement of net assets.		
		15,467,585
Premiums on bonds and bond issuance costs related to the issuance of bonds are amortized over the life of the issuance in the statement of activities. The following transactions occurred in the year:		
Premiums on bonds	(1,070,402)	
Bond issuance costs	223,759	
Total		(846,643)
Governmental funds report expenditures for inventory when purchased. However, in the statement of activities, they are reported as an expense when consumed.		
		(2,635)
Some expenses reported in the statement of activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds		
		(32,187)
Change in net assets of governmental activities	\$	1,523,163

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**NORTHWEST LOCAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues:				
From local sources:				
Taxes	\$ 7,557,394	\$ 7,557,394	\$ 7,742,601	\$ 185,207
Tuition	200,000	200,000	80,124	(119,876)
Earnings on investments	1,000	1,000	625	(375)
Extracurricular	52,429	52,429	10,850	(41,579)
Classroom materials and fees	184,000	184,000	144,077	(39,923)
Other local revenues	25,000	25,000	29,121	4,121
Intergovernmental - intermediate	40,000	40,000	14,899	(25,101)
Intergovernmental - state	9,339,326	9,339,326	9,619,639	280,313
Intergovernmental - federal	-	-	84,027	84,027
Total revenues	<u>17,399,149</u>	<u>17,399,149</u>	<u>17,725,963</u>	<u>326,814</u>
Expenditures:				
Current:				
Instruction:				
Regular	8,218,940	8,218,942	8,119,426	99,516
Special	1,757,975	1,757,975	1,696,613	61,362
Vocational	212,656	212,656	187,953	24,703
Other	148,500	148,500	147,758	742
Support services:				
Pupil	531,197	531,197	500,523	30,674
Instructional staff	145,582	145,582	138,539	7,043
Board of education	106,920	106,920	94,929	11,991
Administration	1,842,325	1,842,325	1,804,295	38,030
Fiscal	441,102	441,102	440,279	823
Operations and maintenance	1,942,346	1,942,346	1,910,231	32,115
Pupil transportation	1,235,116	1,235,116	1,190,176	44,940
Central	199,412	199,412	197,917	1,495
Extracurricular activities	283,000	283,000	243,336	39,664
Debt service:				
Principal	325,000	325,000	325,000	-
Interest and fiscal charges	27,138	27,138	111,141	(84,003)
Total expenditures	<u>17,417,209</u>	<u>17,417,211</u>	<u>17,108,116</u>	<u>309,095</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(18,060)</u>	<u>(18,062)</u>	<u>617,847</u>	<u>635,909</u>
Other financing sources:				
Refund of prior year's receipts	-	-	8	8
Sale/loss of assets	20,000	20,000	22,392	2,392
Total other financing sources	<u>20,000</u>	<u>20,000</u>	<u>22,400</u>	<u>2,400</u>
Net change in fund balance	1,940	1,938	640,247	638,309
Fund balance at beginning of year	1,161,755	1,161,755	1,161,755	-
Prior year encumbrances appropriated	90,748	90,748	90,748	-
Fund balance at end of year	<u>\$ 1,254,443</u>	<u>\$ 1,254,441</u>	<u>\$ 1,892,750</u>	<u>\$ 638,309</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**NORTHWEST LOCAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2012

	Agency
Assets:	
Equity in pooled cash and cash equivalents	\$ 86,537
Total assets.	\$ 86,537
Liabilities:	
Accounts payable.	\$ 50
Intergovernmental payable	24
Due to students	86,463
Total liabilities	\$ 86,537

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**NORTHWEST LOCAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT

The Northwest Local School District (the "District") is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The District is a local district as defined by Section 3311.03 of the Ohio Revised Code. The District is governed by a five-member board of education (the Board) elected by its citizens, which is responsible for the provision of public education to residents of the District.

The District employs 76 non-certified and 145 certified employees to provide services to approximately 2,074 students in grades K through 12 and various community groups. The District operates two elementary schools, one middle school and a high school.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The District also applies Financial Accounting Standards Board (FASB) guidance issued on or before November 30, 1989, to its governmental activities provided it does not conflict with or contradict GASB pronouncements. The District's significant accounting policies are described below.

A. Reporting Entity

The reporting entity has been defined in accordance with GASB Statement No. 14, "The Financial Reporting Entity" as amended by GASB Statement No. 39, "Determining Whether Certain Organizations Are Component Units". The reporting entity is composed of the primary government and component units. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the District. For the District, this includes general operations, food service and student related activities of the District.

Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the organization's Governing Board and (1) the District is able to significantly influence the programs or services performed or provided by the organization; or (2) the District is legally entitled to or can otherwise access the organization's resources; or (3) the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or (4) the District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the District in that the District approves the budget, the issuance of debt or the levying of taxes. Certain organizations are also included as component units if the nature and significance of the relationship between the primary government and the organization is such that exclusion by the primary government would render the primary governments financial statements incomplete or misleading. Based upon the application of these criteria, the District has no component units. The basic financial statements of the reporting entity include only those of the District (the primary government).

**NORTHWEST LOCAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

The following organizations are described due to their relationship to the District:

JOINTLY GOVERNED ORGANIZATIONS

Stark/Portage Area Computer Consortium (SPARCC)

SPARCC is a jointly governed organization created as a regional council of governments pursuant to State Statutes made up of public school districts and county boards of education from Stark, Portage, and Carroll Counties. The primary function of SPARCC is to provide data processing services to its member districts with an emphasis being placed on accounting, inventory control and payroll services. Other areas of service provided by SPARCC include student scheduling, registration, grade reporting, and test scoring. Each member district pays an annual fee for the services provided by SPARCC.

SPARCC is governed by a Board of Directors comprised of each Superintendent within the Consortium. The Stark County Educational Service Center serves as the fiscal agent of the Consortium and receives funding from the State Department of Education. Each district has one vote in all matters and each member district's control over budgeting and financing of SPARCC is limited to its voting authority and any representation it may have on the Board of Directors. The continued existence of SPARCC is not dependent on the District's continued participation and no equity interest exists. Payments to SPARCC are made from the general fund, and amounted to \$82,199 during fiscal year 2012. Financial information can be obtained by writing the Stark/Portage Area Computer Consortium, 2100 38th Street NW, Canton, Ohio 44709.

Stark County Joint Vocational School (JVS)

The JVS is a distinct political subdivision of the State of Ohio operated under the direction of a seven member Board, consisting of one representative from each of the six participating districts' Boards and one Board Member that rotates from each participating district, and has its own budgeting and taxing authority. The JVS provides vocational education programs to students of the District. The financial information can be obtained by writing the Stark County Joint Vocational School, 2800 Richville Drive, S.E., Massillon, Ohio 44646.

PUBLIC ENTITY RISK POOLS

Risk Sharing Pool

The Stark County Schools Council of Governments Health Benefit Plan (the "Consortium") is a shared risk pool created pursuant to State statute for the purpose of administering health care benefits. The consortium is governed by an assembly which consists of one representative from each participating school district (usually the superintendent or designee). The assembly elects officers for one year terms to serve on the Board of Directors. The assembly exercises control over the operation of the Consortium. All Consortium revenues are generated from charges for services. Financial information can be obtained by writing to the Stark County Educational Service Center, 2100 38th Street NW, Canton, Ohio, 44709.

Insurance Purchasing Pool

The Stark County Schools Council of Governments Workers' Compensation Group Rating Plan has created a group insurance pool for the purpose of creating a group rating plan for workers' compensation. The group is comprised of the treasurers of the member schools who have been appointed by the respective governing body of each member school.

**NORTHWEST LOCAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

The intent of the pool is to achieve a reduced rate for the District by grouping with other members of the group. The injury claim histories of all participating members are used to calculate a common rate for the group. An annual fee is paid to CompManagement, Inc. to administer the group and to manage any injury claims. Premium savings created by the group are prorated to each member annually based on its payroll percent of the group.

B. Fund Accounting

The District uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self balancing set of accounts. There are three categories of funds: governmental, proprietary and fiduciary.

GOVERNMENTAL FUNDS

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

General fund -The general fund is used to account for and report all financial resources not accounted for and reported in another fund. The general fund balance is available for any purpose provided it is expended or transferred according to the general laws of Ohio.

Classroom facilities fund - This fund is used to account for monies received and expended in connection with contracts entered into by the District and the Ohio Department of Education for the building and equipping of classroom facilities.

Other governmental funds of the District are used to account for (a) financial resources that are restricted, committed, or assigned to expenditures for capital outlays including the acquisition or construction of capital facilities and other capital assets, (b) specific revenue sources that are restricted or committed to an expenditure for specified purposes other than debt service or capital projects and (c) financial resources that are restricted, committed, or assigned to expenditure for principal and interest.

PROPRIETARY FUNDS

Proprietary funds are used to account for the District's ongoing activities which are similar to those often found in the private sector. The District has no proprietary funds.

**NORTHWEST LOCAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

FIDUCIARY FUNDS

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

C. Basis of Presentation and Measurement Focus

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

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the governmental activities of the District. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include amounts paid by the recipient of goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues not classified as program revenues are presented as general revenues of the District.

The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the District are included on the statement of net assets.

Fund Financial Statements - Fund financial statements report detailed information about the District. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column, and all nonmajor funds are aggregated into one column. Fiduciary funds are reported by fund type.

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

Agency funds do not report a measurement focus as they do not report operations.

**NORTHWEST LOCAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

D. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Fiduciary funds also use the accrual basis of accounting.

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

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

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

Unearned Revenue and Deferred Revenue - Unearned revenue and deferred revenue arise when assets are recognized before revenue recognition criteria have been satisfied.

Property taxes for which there is an enforceable legal claim as of June 30, 2012, but which were levied to finance fiscal year 2013 operations, and other revenues received in advance of the fiscal year for which they are intended to finance, have been recorded as unearned revenue. Grants and entitlements received before the eligibility requirements are met and delinquent property taxes due at June 30, 2012 are recorded as deferred revenue in the governmental funds.

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

Expenses/Expenditures - On the accrual basis of accounting, expenses are recognized at the time they are incurred. The entitlement value of donated commodities received during the year is reported in the fund financial statements as an expenditure with a like amount reported as intergovernmental revenue.

**NORTHWEST LOCAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds.

E. Budgets

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the alternate tax budget, the certificate of estimated resources, and the appropriation resolution, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriations resolution are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified. All funds, other than agency funds, are legally required to be budgeted and appropriated. The legal level of budgetary control has been established at the object level for the general fund and at the fund level for all other funds. Any budgetary modifications at this level may only be made by resolution of the Board of Education. Although the legal level of budgetary control was established at the object level of expenditures for the general fund, the District has elected to present the general fund's budgetary statement comparison at the fund and function level of expenditures.

Tax Budget:

On October 25, 2005, the Stark County Budget Commission voted to waive the requirement that school districts adopt a tax budget as required by Section 5705.28 of the Ohio Revised Code, by January 15th and the filing by January 20th. The Budget Commission now requires an alternate tax budget be submitted by January 20th, which no longer requires specific Board approval.

Estimated Resources:

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

**NORTHWEST LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Appropriations:

Upon receipt from the County Auditor of an amended certificate of estimated resources based on final assessed values and tax rates or a certificate saying no new certificate is necessary, the annual appropriation resolution is enacted by the Board of Education. Prior to the passage of the annual appropriation measure, the Board may pass a temporary appropriation measure to meet the ordinary expenses of the District. The appropriation resolution, at the fund level for all funds, must be within the estimated resources as certified by the County Budget Commission and the total of expenditures may not exceed the appropriation totals at any level of control. Any revisions that alter the level of budgetary control must be approved by the Board of Education.

The Board may pass supplemental fund appropriations so long as the total appropriations by fund do not exceed the amounts set forth in the most recent certificate of estimated resources. During the year, all supplemental appropriations were legally enacted.

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

Lapsing of Appropriations:

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

F. Cash and Investments

To improve cash management, cash received by the District is pooled in a central bank account. Monies for all funds are maintained in this pool. 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 cash equivalents" on the basic financial statements.

During fiscal year 2012, investments were limited to investments in nonnegotiable certificates of deposits 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.

The District has invested funds in STAR Ohio during fiscal year 2012. 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 shares price which is the price the investment could be sold for on June 30, 2012.

**NORTHWEST LOCAL SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund. The Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2012 amounted to \$1,019, which includes \$322 assigned from other District funds.

For presentation on the basic financial statements, investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the District are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

An analysis of the District's investment account at fiscal year end is provided in Note 4.

G. Inventory

On government-wide and fund financial statements, inventories are presented at the lower of cost or market on a first-in, first-out basis and are expensed/expensed when used. Donated commodities are presented at their entitlement value. Inventories are accounted for using the purchases method on the fund financial statements and using the consumption method on the government-wide statements.

On the fund financial statements, reported material and supplies inventory is equally offset by a nonspendable fund balance in the governmental funds which indicates that it does not constitute available spendable resources even though it is a component of net current assets.

Inventory consists of expendable supplies held for consumption, donated food and purchased food.

H. Capital Assets

General capital assets are those assets specifically related to governmental activities. These assets result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets, but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The District maintains its capitalization threshold at \$3,500. Books, records, movies and other learning aids kept at the District's library are not included for reporting purposes. The District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

**NORTHWEST LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

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

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>
Land improvements	15 - 20 years
Buildings and improvements	5 - 50 years
Furniture and equipment	5 - 20 years
Vehicles	6 - 8 years

I. Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as “due to/from other funds”. These amounts are eliminated in the governmental activities column on the statement of net assets.

J. Compensated Absences

The District reports compensated absences in accordance with the provisions of GASB No. 16, “Accounting for Compensated Absences”. Vacation benefits are accrued as a liability as the benefits are earned if the employee’s rights to receive compensation are attributable to services already rendered and it is probable that the District will compensate the employees for the benefits through paid time off or some other means. Sick leave benefits are accrued as a liability using the vesting method. The liability is based on the sick leave accumulated at June 30, by those employees who are currently eligible to receive termination benefits and by those employees who are expected to become eligible in the future. For purposes of establishing a liability for severance on employees expected to become eligible to retire in the future, all employees with 10 years service at any age were considered expected to become eligible to retire in accordance with GASB Statement No. 16.

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

For governmental fund financial statements, compensated absences are recognized as liabilities and expenditures as payments come due each period upon the occurrence of employee resignations and retirements.

K. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements.

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, compensated absences that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Bonds, notes and lease purchase obligations are recognized as a liability in the fund financial statements when due.

**NORTHWEST LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

L. Unamortized Bond Issuance Costs, Bond Premiums and Deferred Charges on Refunding

On the government-wide financial statements, bond issuance costs are deferred and amortized over the term of the bonds using the straight-line method. Unamortized bond issuance costs are recorded as a separate line item on the statement of net assets.

Bond premiums are deferred and amortized over the term of the bonds using the straight-line method, which approximates the effective interest method. Bond premiums are presented as an addition to the face amount of the bonds.

For advance refundings resulting in the defeasance of debt, the difference between the reacquisition price and the net carrying amount of the old debt is deferred and amortized as a component of interest expense. This accounting gain or loss is amortized over the remaining life of the old debt or the life of the new debt, whichever is shorter and is presented as an addition to or reduction of the face amount of the new debt.

A reconciliation between the bonds face value and the amount reported on the statement of net assets is presented in Note 11.

M. Fund Balance

Fund balance is divided into five classifications based primarily on the extent to which the District is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

Nonspendable - The nonspendable fund balance classification includes amounts that cannot be spent because they are not in spendable form or legally required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash.

Restricted - Fund balance is reported as restricted when constraints are placed on the use of resources that are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments, or imposed by law through constitutional provisions or enabling legislation.

Committed - The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by a formal action (resolution) of the District Board of Education (the highest level of decision making authority). Those committed amounts cannot be used for any other purpose unless the District Board of Education removes or changes the specified use by taking the same type of action (resolution) it employed to previously commit those amounts. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned - Amounts in the assigned fund balance classification are intended to be used by the District for specific purposes but do not meet the criteria to be classified as restricted nor committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the general fund, assigned amounts represent intended uses established by policies of the District Board of Education, which includes giving the Treasurer the authority to constrain monies for intended purposes.

**NORTHWEST LOCAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Unassigned - Unassigned fund balance is the residual classification for the general fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is only used to report a deficit fund balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

The District applies restricted resources first when expenditures are incurred for purposes for which restricted and unrestricted (committed, assigned, and unassigned) fund balance is available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

N. Net Assets

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

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

O. Prepayments

Certain payments to vendors reflect the costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. These items are reported as assets using the consumption method. A current asset for the prepaid amounts is recorded at the time of the purchase and the expenditure/expense is reported in the year in which services are consumed. At fiscal year-end, because prepayments are not available to finance future governmental fund expenditures, the fund balance is nonspendable on the fund financial statements by an amount equal to the carrying value of the asset.

P. Estimates

The preparation of the basic financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the basic financial statements and accompanying notes. Actual results may differ from those estimates.

Q. Interfund Activity

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

**NORTHWEST LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

R. Restricted Assets

Assets are reported as restricted assets when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments or imposed by enabling legislation. See Note 11.A. for further detail on restricted assets related to energy conservation note sinking fund deposits maintained by the District.

S. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal year 2012.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principles

For fiscal year 2012, the District has implemented GASB Statement No. 57, "OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans", and GASB Statement No. 64, "Derivative Instruments: Application of Hedge Accounting Termination Provisions - an Amendment of GASB Statement No. 53".

GASB Statement No. 57 addresses issues related to the use of the alternative measurement method and the frequency and timing of measurements by employers that participate in agent multiple-employer other postemployment benefit (OPEB) plans. The implementation of GASB Statement No. 57 did not have an effect on the financial statements of the District.

GASB Statement No. 64 clarifies the circumstances in which a hedge accounting should continue when a swap counterparty, or a swap counterparty's credit support provider, is replaced. The implementation of GASB Statement No. 64 did not have an effect on the financial statements of the District.

B. Deficit Fund Balances

Fund balances at June 30, 2012 included the following individual fund deficits:

<u>Nonmajor funds</u>	<u>Deficit</u>
District managed student activity	\$ 8,028
Education jobs	54,320
Race to the top	1,272
Title VI-B	83,377
Title I	13,655
Improving teacher quality	7,579
Building	151,932

**NORTHWEST LOCAL SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

The general fund is liable for any deficits in these funds and provides transfers when cash is required, not when accruals occur. The deficit fund balances resulted from adjustments for accrued liabilities. The district managed student activity fund and building capital projects fund did not comply with State law which does not allow for a negative cash balance at year end.

NOTE 4 - DEPOSITS AND INVESTMENTS

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

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

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

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

Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts including passbook accounts.

Interim monies may be deposited or invested in the following securities:

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in items (1) and (2) above and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio);

**NORTHWEST LOCAL SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

7. Certain banker's acceptance and commercial paper notes for a period not to exceed one-hundred-eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest classifications by at least two nationally recognized rating agencies.

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

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the District, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

A. Cash on Hand

At fiscal year end, the District had \$5,500 in undeposited cash on hand which is included on the financial statements of the District as part of "equity in pooled cash and cash equivalents".

B. Cash with Escrow Agent

The District has money held in accounts by other agents for retainage related to construction contracts. The money held by the escrow agent cannot be identified as an investment or deposit, since it is held in a pool made up of numerous participants. The amount held by the escrow agent at June 30, 2012 was \$541,220 and is not included in "deposits with financial institutions" below.

C. Cash in Segregated Accounts

At fiscal year end, \$110,000 was on deposit with an escrow agent for required sinking fund deposits relating to the District's energy conservation notes. These funds are not included in "deposits with financial institutions" below.

D. Deposits with Financial Institutions

At June 30, 2012, the carrying amount of all District deposits was \$10,579,535. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2012, \$6,438,223 of the District's bank balance of \$10,729,180 was exposed to custodial risk as discussed below, while \$4,290,957 was covered by the FDIC.

**NORTHWEST LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

Custodial credit risk is the risk that, in the event of bank failure, the District's deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the District. The District has no deposit policy for custodial credit risk beyond the requirements of State statute. Although the securities were held by the pledging institutions' trust department and all statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the District to a successful claim by the FDIC.

E. Investments

As of June 30, 2012, the District had the following investments and maturities:

<u>Investment type</u>	<u>Fair Value</u>	<u>Investment Maturity</u> 6 months or less
STAR Ohio	<u>\$ 1,802,927</u>	<u>\$ 1,802,927</u>

Interest Rate Risk: Interest rate risk arises as potential purchasers of debt securities will not agree to pay face value for those securities if interest rates subsequently increase. As a means of limiting its exposure to fair value losses arising from rising interest rates and according to State law, the District's investment policy limits investment portfolio maturities to five years or less.

Credit Risk: STAR Ohio was rated AAAM by Standard & Poor's and Moody's Investor Services. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service.

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. The District's investment policy does not specifically address custodial credit risk beyond the adherence to all relevant sections of the Ohio Revised Code.

Concentration of Credit Risk: The District places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the District at June 30, 2012:

<u>Investment type</u>	<u>Fair Value</u>	<u>% of Total</u>
STAR Ohio	<u>\$1,802,927</u>	<u>100.00</u>

**NORTHWEST LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

F. Reconciliation of Cash and Investments to the Statement of Net Assets

The following is a reconciliation of cash and investments as reported in the note above to cash and investments as reported on the statement of net assets as of June 30, 2012:

<u>Cash and investments per note</u>	
Carrying amount of deposits	\$ 10,579,535
Investments	1,802,927
Cash with escrow agent	541,220
Cash in segregated accounts	110,000
Cash on hand	<u>5,500</u>
Total	<u>\$ 13,039,182</u>
 <u>Cash and investments per statement of net assets</u>	
Governmental activities	\$ 12,952,645
Agency fund	<u>86,537</u>
Total	<u>\$ 13,039,182</u>

NOTE 5 - INTERFUND TRANSACTIONS

A. Interfund balances at June 30, 2012 as reported on the fund statements, consist of the following amounts due to/from other funds:

<u>Receivable fund</u>	<u>Payable fund</u>	<u>Amount</u>
General fund	Nonmajor governmental funds	\$ 158,379

The primary purpose of the due to/from other funds is to cover negative cash balances in various nonmajor governmental funds. These interfund balances will be repaid once the anticipated revenues are received.

Interfund balances between governmental funds are eliminated on the government-wide financial statements.

B. Interfund transfers for the year ended June 30, 2012, consisted of \$470,000 from the permanent improvement fund to the building fund, both of which are nonmajor governmental funds. The purpose of the transfer was to reduce the deficit balance in the building fund, with the intent of eventually eliminating the deficit. Transfers between governmental funds are eliminated on the government-wide financial statements.

NOTE 6 - PROPERTY TAXES

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

**NORTHWEST LOCAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

NOTE 6 - PROPERTY TAXES - (Continued)

Property taxes include amounts levied against all real property and public utility property. Real property tax revenues received in calendar year 2012 represent the collection of calendar year 2011 taxes. Real property taxes received in calendar year 2012 were levied after April 1, 2011, on the assessed values as of January 1, 2011, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established. Public utility property tax revenues received in calendar year 2012 represent the collection of calendar year 2011 taxes. Public utility real and personal property taxes received in calendar year 2012 became a lien on December 31, 2010, were levied after April 1, 2011, and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

The District receives property taxes from Stark, Summit and Wayne Counties. The County Auditors/Fiscal Officer periodically advance to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2012, are available to finance fiscal year 2012 operations. The amount available as an advance at June 30, 2012 was \$470,802 in the general fund, \$90,923 in the bond retirement debt service fund (a nonmajor governmental fund) and \$27,222 in the permanent improvement fund (a nonmajor governmental fund). This amount is recorded as revenue. The amount available for advance at June 30, 2011 was \$786,783 in the general fund, \$153,267 in the bond retirement debt service fund (an nonmajor governmental fund) and \$45,858 in the permanent improvement fund (a nonmajor governmental fund). The amount of second-half real property taxes available for advance at fiscal year-end can vary based on the date the tax bills are sent.

Accrued property taxes receivable includes real property, public utility property and delinquent tangible personal property taxes which are measurable as of June 30, 2012 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to unearned revenue.

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

**NORTHWEST LOCAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 6 - PROPERTY TAXES - (Continued)

The assessed values upon which the fiscal year 2012 taxes were collected are:

	2011 Second Half Collections		2012 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and other real estate	\$ 259,460,030	97.24	\$ 258,777,810	96.57
Public utility personal	7,201,010	2.70	9,194,990	3.43
Tangible personal property	<u>169,870</u>	<u>0.06</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 266,830,910</u>	<u>100.00</u>	<u>\$ 267,972,800</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation for:				
Operations	\$48.50		\$48.50	
Permanent improvements	1.50		1.50	
Debt service	5.00		5.00	

NOTE 7 - INCOME TAX

Effective January 1, 2011, the District levies a voted tax of 1% for general obligations on the earned income of residents and of estates. Employers of residents are required to withhold income tax on compensation and remit the tax to the State. Taxpayers are required to file an annual return. The State makes quarterly distributions to the District after withholding amounts for administrative fees and estimated refunds. Income tax revenue is credited to the general fund and totaled \$2,096,753 for fiscal year 2012.

NOTE 8 - RECEIVABLES

Receivables at June 30, 2012 consisted of taxes, accounts (billings for user charged services and student fees), intergovernmental grants and entitlements and accrued interest. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs and the current year guarantee of Federal funds. A summary of the principal items of receivables reported on the statement of net assets follows:

Governmental activities:	
Taxes	\$ 8,970,350
Accounts	4,502
Intergovernmental	2,347,149
Accrued interest	<u>2,345</u>
Total	<u>\$ 11,324,346</u>

Receivables have been disaggregated on the face of the basic financial statements. All receivables, except for \$2,311,727 due from the Ohio School Facilities Commission (OSFC) included in intergovernmental receivables, are expected to be collected within the subsequent year.

**NORTHWEST LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 9 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2012, was as follows:

	Balance			Balance
	<u>6/30/11</u>	<u>Additions</u>	<u>Deductions</u>	<u>6/30/12</u>
Governmental activities:				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 158,003	\$ -	\$ -	\$ 158,003
Construction in progress	<u>4,494,553</u>	<u>17,094,026</u>	<u>-</u>	<u>21,588,579</u>
Total capital assets, not being depreciated	<u>4,652,556</u>	<u>17,094,026</u>	<u>-</u>	<u>21,746,582</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	343,789	8,375	-	352,164
Buildings and improvements	30,266,741	-	(105,455)	30,161,286
Furniture and equipment	1,855,153	70,967	-	1,926,120
Vehicles	<u>1,372,753</u>	<u>185,736</u>	<u>-</u>	<u>1,558,489</u>
Total capital assets, being depreciated	<u>33,838,436</u>	<u>265,078</u>	<u>(105,455)</u>	<u>33,998,059</u>
<i>Less: accumulated depreciation</i>				
Land improvements	(83,840)	(22,018)	-	(105,858)
Buildings and improvements	(7,195,915)	(712,651)	105,089	(7,803,477)
Furniture and equipment	(1,172,195)	(122,714)	-	(1,294,909)
Vehicles	<u>(1,224,910)</u>	<u>(63,073)</u>	<u>-</u>	<u>(1,287,983)</u>
Total accumulated depreciation	<u>(9,676,860)</u>	<u>(920,456)</u>	<u>105,089</u>	<u>(10,492,227)</u>
Governmental activities capital assets, net	<u>\$ 28,814,132</u>	<u>\$ 16,438,648</u>	<u>\$ (366)</u>	<u>\$ 45,252,414</u>

Depreciation expense was charged to governmental functions as follows:

<u>Instruction:</u>	
Regular	\$ 587,500
Special	13,135
Vocational	3,760
<u>Support services:</u>	
Pupil	7,935
Instructional staff	30,496
Administration	20,756
Operations and maintenance	64,003
Pupil transportation	83,303
Central	1,629
Extracurricular activities	46,936
Non-instructional	938
Food service operations	<u>60,065</u>
Total depreciation expense	<u>\$ 920,456</u>

**NORTHWEST LOCAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 10 - LEASE-PURCHASE AGREEMENT - LESSEE DISCLOSURE

On August 16, 2007, the District entered into a \$1,318,000 lease-purchase agreement with the Columbus Regional Airport Authority to finance the acquisition of a bus garage. On August 6, 2009, the District entered into a lease-purchase agreement with the Columbus Regional Airport Authority to finance improvements to the District's buildings. Lease payments have been reclassified and are reflected as debt service expenditures in the financial statements for the governmental funds.

Capital assets consisting of buildings have been capitalized in the amount of \$1,325,040. Accumulated depreciation as of June 30, 2012 was \$161,143, leaving a current book value of \$1,163,897. A corresponding liability is recorded in the government-wide financial statements. Lease-purchase proceeds in the amount of \$1,508,677 have not been spent as of June 30, 2012. Principal and interest and fiscal charges payments in fiscal year 2012 totaled \$91,000 and \$129,233, respectively, paid by the permanent improvement fund (a non-major governmental fund).

A liability in the amount of the present value of minimum lease payments has been recorded in the governmental activities of the District.

The following is a schedule of the future long-term minimum lease payments required under the lease-purchase agreement and the present value of the minimum lease payments as of June 30, 2012.

Fiscal Year Ending <u>June 30,</u>	<u>Amount</u>
2013	\$ 220,745
2014	220,041
2015	220,120
2016	219,958
2017	220,531
2018 - 2022	1,099,440
2023 - 2027	1,098,270
2028 - 2032	<u>678,461</u>
Total	3,977,566
Less: amount representing interest	<u>(1,320,566)</u>
Present value of minimum lease payments	<u>\$ 2,657,000</u>

**NORTHWEST LOCAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 11 - LONG-TERM OBLIGATIONS

- A. During the fiscal year 2012, the following changes occurred in governmental activities long-term obligations:

	Balance Outstanding <u>6/30/11</u>	<u>Additions</u>	<u>Deletions</u>	Balance Outstanding <u>6/30/12</u>	Amount Due in <u>One Year</u>
Governmental activities:					
<u>General obligation bonds:</u>					
Series 2002, Improvement					
Current Interest Bonds	\$ 16,000,000	\$ -	\$ (15,300,000)	\$ 700,000	\$ 700,000
Series 2010, Refunding					
Current Interest Bonds	2,880,000	-	(35,000)	2,845,000	35,000
Capital Appreciation Bonds	78,682	-	-	78,682	-
Accreted Interest	10,517	18,721	-	29,238	-
Series 2011, Refunding					
Current Interest Bonds	-	9,085,000	(170,000)	8,915,000	135,000
Capital Appreciation Bonds	-	83,849	-	83,849	-
Accreted Interest	-	17,802	-	17,802	-
Series 2012, Refunding					
Current Interest Bonds	-	5,445,000	-	5,445,000	55,000
Capital Appreciation Bonds	-	7,093	-	7,093	-
Accreted Interest	-	822	-	822	-
Total general obligation bonds	<u>18,969,199</u>	<u>14,658,287</u>	<u>(15,505,000)</u>	<u>18,122,486</u>	<u>925,000</u>
<u>Other obligations:</u>					
Energy conservation note	1,715,000	-	-	1,715,000	-
Lease-purchase obligations	2,748,000	-	(91,000)	2,657,000	96,000
Compensated absences	<u>1,511,801</u>	<u>179,608</u>	<u>(282,623)</u>	<u>1,408,786</u>	<u>159,254</u>
Total other obligations	<u>5,974,801</u>	<u>179,608</u>	<u>(373,623)</u>	<u>5,780,786</u>	<u>255,254</u>
Total all governmental activities long-term liabilities	<u>\$ 24,944,000</u>	<u>\$ 14,837,895</u>	<u>\$ (15,878,623)</u>	23,903,272	<u>\$ 1,180,254</u>
Add: Unamortized premium on bond issuance				1,407,521	
Less: Unamortized deferred charges on refunding				<u>(971,682)</u>	
Total reported on the statement of net assets				<u>\$ 24,339,111</u>	

Compensated absences will be paid from the fund from which the employee is paid, which is primarily the general fund.

The lease-purchase obligations will be paid from the permanent improvement fund. See Note 10 for more detail.

**NORTHWEST LOCAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

NOTE 11 - LONG-TERM OBLIGATIONS - (Continued)

Series 2002 School Improvement General Obligation Bonds

During fiscal year 2003, the voters of the District authorized the issuance of \$22,999,986 in general obligation bonds, for the purpose of constructing, furnishing and equipping a new elementary school and an addition to the high school and renovating, constructing, furnishing, equipping and otherwise improving school facilities and acquiring and improving their sites. These bonds will be retired from proceeds of a 5.0 mil bonded debt tax levy. The District refunded all but \$700,000 of this bond issue during fiscal year 2012.

Series 2010 Refunding General Obligation Bonds

On October 6, 2010, the District issued general obligation bonds to advance refund a portion of the Series 2002 bond issue. These bonds are general obligations of the District, for which its full faith and credit is pledged. The source of payment is derived from proceeds of a 5.0 mil bonded debt tax levy.

The issuance proceeds of \$3,362,660 were used to purchase securities which were placed in an irrevocable trust to provide resources for all future debt service payments on the refunded debt. This refunded debt is considered defeased (in-substance) and accordingly has been removed from the statement of net assets. At June 30, 2012, \$3,015,000 of this debt was outstanding.

This issue is comprised of current interest bonds, par value \$2,935,000 and capital appreciation bonds, par value \$78,682. The capital appreciation bonds mature December 1, 2020, (stated interest 20.00%) at a redemption price equal to 100% of the principal, plus accrued interest to the redemption date. The accreted value at maturity for the capital appreciation bonds is \$545,000. Total accreted interest of \$29,238 has been included on the statement of net assets at June 30, 2012.

Interest payments on the current interest bonds are due on June 1 and December 1 of each year. The final maturity stated in the issue is December 1, 2022.

Series 2011 Refunding General Obligation Bonds

On October 12, 2011, the District issued general obligation bonds to advance refund a portion of the Series 2002 bond issue. These bonds are general obligations of the District, for which its full faith and credit is pledged. The source of payment is derived from proceeds of a 5.0 mil bonded debt tax levy.

The issuance proceeds of \$9,757,917 were used to purchase securities which were placed in an irrevocable trust to provide resources for all future debt service payments on the refunded debt. This refunded debt is considered defeased (in-substance) and accordingly has been removed from the statement of net assets. At June 30, 2012, \$9,170,000 of this debt was outstanding.

This issue is comprised of current interest bonds, par value \$9,085,000 and capital appreciation bonds, par value \$83,849. The capital appreciation bonds mature December 1, 2019, (stated interest 32.25%) at a redemption price equal to 100% of the principal, plus accrued interest to the redemption date. The accreted value at maturity for the capital appreciation bonds is \$955,000. Total accreted interest of \$17,802 has been included on the statement of net assets at June 30, 2012.

Interest payments on the current interest bonds are due on June 1 and December 1 of each year. The final maturity stated in the issue is December 1, 2025.

**NORTHWEST LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 11 - LONG-TERM OBLIGATIONS - (Continued)

The reacquisition price exceeded the net carrying amount of the old debt by \$504,116. This amount is being netted against the new debt and amortized over the remaining life of the refunded debt, which is equal to the life of the new debt issued. This advance refunding was undertaken to reduce total debt service payments by \$819,524 and resulted in an economic gain of \$683,377.

Series 2012 Refunding General Obligation Bonds

On January 12, 2012, the District issued general obligation bonds to advance refund a portion of the Series 2002 bond issue. These bonds are general obligations of the District, for which its full faith and credit is pledged. The source of payment is derived from proceeds of a 5.0 mil bonded debt tax levy.

The issuance proceeds of \$5,709,668 were used to purchase securities which were placed in an irrevocable trust to provide resources for all future debt service payments on the refunded debt. This refunded debt is considered defeased (in-substance) and accordingly has been removed from the statement of net assets. At June 30, 2012, \$5,455,000 of this debt was outstanding.

This issue is comprised of current interest bonds, par value \$5,445,000 and capital appreciation bonds, par value \$7,093. The capital appreciation bonds mature December 1, 2026, (stated interest 30.00%) at a redemption price equal to 100% of the principal, plus accrued interest to the redemption date. The accreted value at maturity for the capital appreciation bonds is \$455,000. Total accreted interest of \$822 has been included on the statement of net assets at June 30, 2012.

Interest payments on the current interest bonds are due on June 1 and December 1 of each year. The final maturity stated in the issue is December 1, 2029.

The reacquisition price exceeded the net carrying amount of the old debt by \$200,329. This amount is being netted against the new debt and amortized over the remaining life of the refunded debt, which is equal to the life of the new debt issued. This advance refunding was undertaken to reduce total debt service payments by \$933,973 and resulted in an economic gain of \$709,781.

Energy Conservation Notes

On October 6, 2010, the District issued notes for the purpose of purchasing and installing energy conservation improvements throughout the District. The improvements are not capital in nature and are expensed as incurred in the financial statements as general maintenance and repair items. The notes bear an interest rate of 5.05%, with interest payable each June 1 and December 1. Payments are made from the general fund. The notes mature on December 1, 2025.

**NORTHWEST LOCAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 11 - LONG-TERM OBLIGATIONS - (Continued)

The District is required to make mandatory sinking fund deposits on December 1, in the following fiscal years and in the following amounts:

Fiscal Year Ending June 30	<u>Amount</u>
2013	\$ 110,000
2014	115,000
2015	115,000
2016	115,000
2017	115,000
2018	115,000
2019	115,000
2020	115,000
2021	115,000
2022	115,000
2023	115,000
2024	115,000
2025	115,000
2026	<u>115,000</u>
Total	<u>\$ 1,605,000</u>

The District receives a reimbursement from the United States Treasury equal to 100% of the lesser of the interest payments on the energy conservation notes or the federal tax credits that would have otherwise been available to the holders of the energy conservation notes. The District records this reimbursement as federal intergovernmental revenue in the general fund.

B. Principal and interest requirements to retire the general obligation bonds and notes outstanding at June 30, 2012 are as follows:

Fiscal Year Ending June 30	General Obligation Current Interest Bonds			General Obligation Capital Appreciation Bonds		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 925,000	\$ 511,193	\$ 1,436,193	\$ -	\$ -	\$ -
2014	925,000	477,343	1,402,343	-	-	-
2015	940,000	463,031	1,403,031	-	-	-
2016	950,000	448,656	1,398,656	-	-	-
2017	965,000	431,903	1,396,903	-	-	-
2018 - 2022	3,590,000	1,898,334	5,488,334	162,531	1,337,469	1,500,000
2023 - 2027	5,465,000	1,135,807	6,600,807	7,093	447,907	455,000
2028 - 2030	<u>4,145,000</u>	<u>219,269</u>	<u>4,364,269</u>	-	-	-
Total	<u>\$ 17,905,000</u>	<u>\$ 5,585,536</u>	<u>\$ 23,490,536</u>	<u>\$ 169,624</u>	<u>\$ 1,785,376</u>	<u>\$ 1,955,000</u>

**NORTHWEST LOCAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 11 - LONG-TERM OBLIGATIONS - (Continued)

Fiscal Year Ending June 30	Energy Conservation Notes		
	Principal	Interest	Total
2013	\$ -	\$ 86,608	\$ 86,608
2014	-	86,608	86,608
2015	-	86,608	86,608
2016	-	86,608	86,608
2017	-	86,608	86,608
2018 - 2022	-	433,040	433,040
2023 - 2026	<u>1,715,000</u>	<u>303,128</u>	<u>2,018,128</u>
Total	<u>\$ 1,715,000</u>	<u>\$ 1,169,208</u>	<u>\$ 2,884,208</u>

C. Legal Debt Margin

The Ohio Revised Code provides that voted net general obligation debt of the District shall never exceed 9% of the total assessed valuation of the District. The code further provides that unvoted indebtedness shall not exceed 1/10 of 1% of the property valuation of the District. The code additionally states that unvoted indebtedness related to energy conservation debt shall not exceed 9/10 of 1% of the property valuation of the District. The assessed valuation used in determining the District's legal debt margin has been modified by House Bill 530 which became effective March 30, 2006. In accordance with House Bill 530, the assessed valuation used in the District's legal debt margin calculation excluded tangible personal property used in business, telephone or telegraph property, interexchange telecommunications company property, and personal property owned or leased by a railroad company and used in railroad operations. The effects of these debt limitations at June 30, 2012, are a voted debt margin of \$7,205,740 (including available funds of \$1,162,812) and an unvoted debt margin of \$267,973.

NOTE 12 - NOTES PAYABLE

On June 22, 2010, the District issued tax anticipation notes in the amount of \$1,137,009 for the purpose of covering general operating costs of the District. Principal and interest payments on the notes are made from the general fund with revenues received from the District's income tax levy. The notes are reported as a liability in the general fund.

This issue is comprised of both current interest notes, par value \$1,115,000, and capital appreciation notes, par value \$22,009. The interest rates on the current interest notes range from 2.000% to 3.125%. The capital appreciation notes mature on December 1, 2014 and 2015 (approximate initial offering yield at maturity of 3.50% and 3.60%) at a redemption price equal to 100% of the principal, plus accrued interest to the redemption date. The accreted value at maturity for the capital appreciation notes is \$60,000. A total of \$14,600 in accreted interest has been included in the statement of net assets at June 30, 2012.

Interest payments on the current interest notes are due on June 1 and December 1 of each year. The final maturity stated in the issue is December 1, 2015.

**NORTHWEST LOCAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 12 - NOTES PAYABLE - (Continued)

The following is a schedule of activity for fiscal year 2012 on the income tax anticipation notes:

	Balance <u>06/30/11</u>	<u>Additions</u>	<u>Reductions</u>	Balance <u>06/30/12</u>	Amounts Due in <u>One Year</u>
Tax anticipation notes - series 2010:					
Current interest notes	\$ 1,115,000	\$ -	\$ (215,000)	\$ 900,000	\$ 235,000
Capital appreciation notes	22,009	-	-	22,009	-
Accreted interest	<u>7,369</u>	<u>7,231</u>	-	<u>14,600</u>	-
Total tax anticipation notes	<u>\$ 1,144,378</u>	<u>\$ 7,231</u>	<u>\$ (215,000)</u>	<u>\$ 936,609</u>	<u>\$ 235,000</u>

The following is a schedule of the future debt service requirements to maturity for the notes:

Year Ended	Current Interest Notes			Capital Appreciation Notes		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 235,000	\$ 20,213	\$ 255,213	\$ -	\$ -	\$ -
2014	235,000	15,219	250,219	-	-	-
2015	230,000	9,413	239,413	4,288	5,712	10,000
2016	<u>200,000</u>	<u>3,125</u>	<u>203,125</u>	<u>17,721</u>	<u>32,279</u>	<u>50,000</u>
Total	<u>\$ 900,000</u>	<u>\$ 47,970</u>	<u>\$ 947,970</u>	<u>\$ 22,009</u>	<u>\$ 37,991</u>	<u>\$ 60,000</u>

NOTE 13 - OTHER EMPLOYEE BENEFITS

A. Compensated Absences

The criteria for determining vacation and sick leave components are derived from negotiated agreements and State laws. Administrative and 260 day employees earn ten to thirty days of vacation per fiscal year, depending upon length of service. Accumulated, unused vacation time is paid to classified employees and administrators upon termination of employment. Teachers do not earn vacation time. Teachers, administrators, and classified employees earn sick leave at the rate of one and one-fourth days per month. Upon retirement, classified employees are entitled to one-third of unused sick leave for the first 120 days of unused sick leave and one-tenth of unused sick leave in excess of 120 days. Upon retirement, certified employees are entitled to one-third of unused sick leave for the first 120 days of unused sick leave and one-tenth of unused sick leave in excess of 120 days, up to a maximum of 56 days.

B. Insurance Benefits

The District provides life insurance and accidental death and dismemberment insurance to most employees through Stark County Schools Council of Governments Health Benefits Program. Coverage in the amount of \$50,000 is provided for all certified and classified employees.

**NORTHWEST LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 14 - RISK MANAGEMENT

A. Property

The District is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions; injuries to employees and natural disasters. During fiscal year 2012, the District maintained comprehensive insurance coverage with private carriers for real property, building contents and vehicles. Vehicle policies include liability coverage for bodily injury and property damage. Real property and contents are 90% coinsured.

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

B. Employee Health Benefits

The District has contracted with Stark County Schools Council of Governments (a shared risk pool) (Note 2) to provide employee medical/surgical benefits. Rates are set through an annual calculation process. The District pays a monthly contribution which is placed in a common fund from which claim payments are made for all participating districts. The District's Board of Education pays 95% of the cost of a monthly premium for certified and classified employees. For fiscal year 2012, the District's cost paid for medical and dental premiums was \$1,413.74 for family coverage and \$580.89 for single coverage, per month for enrolled employees.

Claims are paid for all participants regardless of claims flow. Upon termination, all District claims would be paid without regard to the District's account balance. The Directors have the right to hold monies for an exiting district subsequent to the settlement of all expenses and claims.

C. Workers' Compensation

The District participates in the Stark County Schools Council of Governments Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 2). The intent of the GRP is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating districts is calculated as one experience and a common premium rate is applied to all districts in the GRP.

Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percent of the GRP. A participant will then either receive money from or be required to contribute to the "equity pooling fund". This "equity pooling fund" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to districts that can meet the GRP's selection criteria. The firm of CompManagement, Inc. provides administrative, cost control and actuarial services to the GRP.

**NORTHWEST LOCAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 15 - PENSION PLANS

A. School Employees Retirement System

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

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14 percent of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2012, 12.65 percent and 0.05 percent of annual covered salary was the portion used to fund pension obligations and death benefits, respectively. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The District's required contributions for pension obligations and death benefits to SERS for the fiscal years ended June 30, 2012, 2011 and 2010 were \$323,576, \$252,767 and \$293,802, respectively; 59.24 percent has been contributed for fiscal year 2012 and 100 percent for fiscal years 2011 and 2010.

B. State Teachers Retirement System of Ohio

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 website at www.strsoh.org, under "*Publications*".

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on a member's lifetime contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. Benefits are established by Chapter 3307 of the Ohio Revised Code.

**NORTHWEST LOCAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

NOTE 15 - PENSION PLANS - (Continued)

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

Funding Policy - For fiscal year 2012, plan members were required to contribute 10 percent of their annual covered salaries. The District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for 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, 2012, 2011 and 2010 were \$1,094,555, \$1,062,689 and \$1,112,085, respectively; 84.81 percent has been contributed for fiscal year 2012 and 100 percent for fiscal years 2011 and 2010. Contributions to the DC and Combined Plans for fiscal year 2012 were \$54,273 made by the District and \$38,766 made by the plan members.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the SERS/STRS Ohio have an option to choose Social Security or the SERS/STRS Ohio. As of June 30, 2012, certain members of the Board of Education have elected Social Security. The District's liability is 6.2 percent of wages paid.

NOTE 16 - POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

Plan Description - The District participates in two cost-sharing, multiple employer postemployment benefit plans administered by the School Employees Retirement System (SERS) for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's, Medicare Advantage, and traditional indemnity plans. A prescription drug 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 Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Section 3309.69 of the Ohio Revised Code. 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 premium for calendar year 2011 (latest information available) was \$96.40 for most participants, but could be as high as \$369.10 per month depending on their income and the SERS' reimbursement to retirees was \$45.50. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746. It is also posted on the SERS' Ohio website, www.ohsers.org, under "Employers/Audit Resources".

**NORTHWEST LOCAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

NOTE 16 - POSTEMPLOYMENT BENEFITS - (Continued)

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). For 2012, 0.55 percent of covered payroll was allocated to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statutes provide that no employer shall pay a health care surcharge greater than 2.0 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the statewide SERS-covered payroll for the health care surcharge. For fiscal year 2012, the actuarially determined amount was \$35,800.

Active members do not contribute to the postemployment benefit plans. The 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 District's contributions for health care (including surcharge) for the fiscal years ended June 30, 2012, 2011 and 2010 were \$46,932, \$65,680 and \$58,973, respectively; 59.24 percent has been contributed for fiscal year 2012 and 100 percent for fiscal years 2011 and 2010.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2012, this actuarially required allocation was 0.75 percent of covered payroll. The District's contributions for Medicare Part B for the fiscal years ended June 30, 2012, 2011, and 2010 were \$19,109, \$16,266 and \$17,472, respectively; 59.24 percent has been contributed for fiscal year 2012 and 100 percent for fiscal years 2011 and 2010.

B. State Teachers Retirement System of Ohio

Plan Description - The District contributes to the cost sharing, multiple employer defined benefit Health Plan (the "Plan") administered by the State Teachers Retirement System of Ohio (STRS Ohio) for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS Ohio. Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. The Plan is included in the report of STRS Ohio which may be obtained by visiting www.strsoh.org, under "Publications" 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 2012, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The District's contributions for health care for the fiscal years ended June 30, 2012, 2011 and 2010 were \$84,197, \$81,475 and \$85,545, respectively; 84.81 percent has been contributed for fiscal year 2012 and 100 percent for fiscal years 2011 and 2010.

**NORTHWEST LOCAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 17 - BUDGETARY BASIS OF ACCOUNTING

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

The statement of revenue, expenditures and changes in fund balance - budget and actual (non-GAAP budgetary basis) presented for the general fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the GAAP basis are that:

- (a) Revenues and other financing sources are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- (b) Expenditures and other financing uses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);
- (c) In order to determine compliance with Ohio law, and to reserve that portion of the applicable appropriation, total outstanding encumbrances (budget basis) are recorded as the equivalent of an expenditure, as opposed to assigned or committed fund balance for that portion of outstanding encumbrances not already recognized as an account payable (GAAP basis); and,
- (d) Some funds are included in the general fund (GAAP basis), but have separate legally adopted budgets (budget basis).

The adjustments necessary to convert the results of operations for the year on the budget basis to the GAAP basis for the general fund is as follows:

Net Change in Fund Balance

	<u>General fund</u>
Budget basis	\$ 640,247
Net adjustment for revenue accruals	409,256
Net adjustment for expenditure accruals	718,895
Net adjustment for other sources/uses	(8)
Funds budgeted elsewhere	12,293
Adjustment for encumbrances	63,699
GAAP basis	<u>\$ 1,844,382</u>

Certain funds that are legally budgeted in separate special revenue funds are considered part of the general fund on a GAAP basis. This includes the uniform school supplies fund and the public school support fund.

**NORTHWEST LOCAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 18 - CONTINGENCIES

A. Grants

The Auditor of State is currently performing a statewide review of supporting documentation for student attendance data reported to the Ohio Department of Education. The results of this review are still pending and will be reported separately to the Ohio Department of Education at a later date.

The District received financial assistance from federal and State agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. This also encompasses the Auditor of State's ongoing review of student attendance data. However, the effect of any such disallowed claims on the overall financial position of the District at June 30, 2012, if applicable, cannot be determined at this time.

B. Litigation

The District is party to other legal proceedings seeking damages generally incidental to its operations. The District management is of the opinion that disposition of the claim and legal proceedings will not have a material effect, if any, on the financial condition of the District.

NOTE 19 - SET-ASIDES

The District is required by State law to annually set-aside certain general fund revenue amounts, as defined by statutory formula, for the acquisition and construction of capital improvements. Amounts not spent by the end of the fiscal year or offset by similarly restricted resources received during the year must be held in cash at fiscal year-end. This amount must be carried forward to be used for the same purpose in future years. Expenditures exceeding the set-aside requirement may not be carried forward to the next fiscal year.

The following cash-basis information describes the change in the fiscal year-end set-aside amount for capital improvements. Disclosure of this information is required by State statute.

	<u>Capital Improvements</u>
Set-aside balance June 30, 2011	\$ -
Current year set-aside requirement	362,222
Current year offsets	<u>(430,362)</u>
Total	<u>\$ (68,140)</u>
Set-aside balance June 30, 2012	<u><u>\$ -</u></u>

During fiscal year 2003, the District issued \$22,999,986 in capital related school improvement bonds. These proceeds may be used to offset the required capital improvements set-aside amount for future years. The District is responsible for tracking the amount of bond proceeds that may be used as an offset in future periods, which was \$22,687,348 at June 30, 2012.

**NORTHWEST LOCAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 20 - CONTRACTUAL COMMITMENTS

The District entered into the following contracts for the construction project:

Contractor	Contract Amount	Expended	Balance 6/30/12
INTEC Building Services	\$ 5,503,028	\$ 4,020,690	\$ 1,482,338
Enertech Electrical, Inc.	2,592,980	1,553,348	1,039,632
Guenther Mechanical, Inc.	3,623,181	2,773,954	849,227
S.S. Sprinkler, LTD	167,002	122,307	44,695
Cardinal Environmental Services, Inc.	120,803	67,822	52,981
C.T. Taylor Company	7,112,623	3,753,225	3,359,398
Wood Electric Company	2,166,875	1,036,676	1,130,199
Standard Plumbing & Heating	2,317,722	1,738,006	579,716
The Conti Corporation	799,724	467,455	332,269
RNL Fire Systems, LLC	207,750	113,106	94,644
Coleman Trucking, Inc.	84,000	68,193	15,807
Abbot Electric	427,992	94,944	333,048
	<u>\$ 25,123,680</u>	<u>\$ 15,809,726</u>	<u>\$ 9,313,954</u>

These contractual commitments relate to the OSFC project undertaken by the District.

NOTE 21 - OTHER COMMITMENTS

The District utilizes encumbrance accounting as part of its budgetary controls. Encumbrances outstanding at year end may be reported as part of restricted, committed, or assigned classifications of fund balance. At year end, the District's commitments for encumbrances in the governmental funds were as follows:

<u>Fund</u>	Year-End <u>Encumbrances</u>
General fund	\$ 88,175
Classroom facilities	7,684,957
Other governmental	<u>6,127</u>
Total	<u>\$ 7,779,259</u>

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**NORTHWEST LOCAL SCHOOL DISTRICT
STARK COUNTY
FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2012**

Federal Grantor/ Pass Through Grantor/ Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Expenditures	Non-Cash Expenditures
<u>U.S. DEPARTMENT OF AGRICULTURE</u>						
<i>Passed Through the Ohio Department of Education:</i>						
Child Nutrition Cluster:						
School Breakfast Program	049908-3L70-2012	10.553	\$6,106		\$6,106	
National School Lunch Program	049908-3L60-2012	10.555	239,082	\$50,183	239,082	\$50,183
Total U.S. Department of Agriculture			245,188	50,183	245,188	50,183
<u>U.S. DEPARTMENT OF EDUCATION</u>						
<i>Passed Through the Ohio Department of Education:</i>						
Special Education Cluster:						
Special Education - Grants to States	049908-3M20-2011	84.027	11,182		70,232	
Special Education - Grants to States	049908-3M20-2012	84.027	403,094		382,073	
ARRA Special Education - Grants to States	049908-3DJ0-2011	84.391	7,678		56,409	
Total Special Education Cluster			421,954		508,714	
Title I Cluster:						
Title I Grants to Local Educational Agencies	049908-3M00-2011	84.010	0		25,144	
Title I Grants to Local Educational Agencies	049908-3M00-2012	84.010	182,273		167,178	
ARRA Title 1 Grants to Local Educational Agencies	049908-3DK0-2010	84.389	0		1,439	
ARRA Title 1 Grants to Local Educational Agencies	049908-3DK0-2011	84.389	12,067		36,478	
Total Title I Cluster			194,340		230,239	
ARRA Education Stabilization Grant	049908-GRF-2011	84.394	0		180,961	
ARRA Race to the Top	049908-3FD0-2012	84.395	27,685		29,272	
Education Technology State Grants	049908-3S20-2012	84.318	1,766		1,766	
Improving Teacher Quality State Grants	049908-3Y60-2009	84.367	0		1,216	
Improving Teacher Quality State Grants	049908-3Y60-2010	84.367	0		2,424	
Improving Teacher Quality State Grants	049908-3Y60-2011	84.367	2,833		10,939	
Improving Teacher Quality State Grants	049908-3Y60-2012	84.367	54,313		52,319	
Total Improving Teacher Quality			57,146		66,898	
ARRA Education Jobs Fund Program	049908-3ET0-2012	84.410	169,209		226,318	
Total U.S. Department of Education			872,100		1,244,168	
Totals			\$1,117,288	\$50,183	\$1,489,356	\$50,183

The accompanying notes to this schedule are an integral part of this schedule.

**NORTHWEST LOCAL SCHOOL DISTRICT
STARK COUNTY**

**NOTES TO THE FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FISCAL YEAR ENDED JUNE 30, 2012**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Federal Awards Receipts and Expenditures Schedule (the Schedule) reports the Northwest Local School District's (the District's) federal award programs' receipts and disbursements. The schedule has been prepared on the cash basis of accounting.

NOTE B - CHILD NUTRITION CLUSTER

The District commingles cash receipts from the U.S. Department of Agriculture with similar State grants. When reporting expenditures on this Schedule, the District assumes it expends federal monies first.

NOTE C – FOOD DONATION PROGRAM

The District reports commodities consumed on the Schedule at the entitlement value. The District allocated donated food commodities to the respective program that benefitted from the use of those donated food commodities.



Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

Northwest Local School District
Stark County
2309 Locust Street South
Canal Fulton, Ohio 44614

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Northwest Local School District, Stark County, Ohio (the District) as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements and have issued our report thereon dated January 16, 2013. 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*.

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 audit procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of opining on the effectiveness of the District's internal control over financial reporting. Accordingly, we have not opined 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 timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in more than a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and timely corrected.

Our consideration of internal control over financial reporting 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 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 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 tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect 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 an opinion. The results of our tests disclosed an instance of noncompliance or other matters we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2012-001.

We also noted certain matters not requiring inclusion in this report that we reported to the District's management in a separate letter dated January 16, 2013.

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

We intend this report solely for the information and use of management, the Board of Education, federal awarding agencies and pass-through entities, and others within the District. We intend it for no one other than these specified parties.



Dave Yost
Auditor of State

January 16, 2013



Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

Northwest Local School District
Stark County
2309 Locust Street South
Canal Fulton, Ohio 44614

To the Board of Education:

Compliance

We have audited the compliance of Northwest Local School District, Stark County, Ohio (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 directly and materially affect each of Northwest Local School District's major federal programs for the year ended June 30, 2012. The summary of auditor's results section of the accompanying schedule of findings identifies the District's major federal programs. The District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to opine on the District's compliance based on our audit.

Our compliance audit followed auditing standards generally accepted in the United States of America; the standards applicable to financial audits included in the Comptroller General of the United States' *Government Auditing Standards*; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. These standards and OMB Circular A-133 require that we plan and perform the audit to reasonably assure whether noncompliance occurred with the compliance requirements referred to above that could directly and materially affect a major federal program. An audit includes examining, on a test basis, evidence about the District's compliance with these 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 these requirements.

In our opinion, the Northwest Local School District complied, in all material respects, with the requirements referred to above that could directly and materially affect each of its major federal programs for the year ended June 30, 2012.

Internal Control Over Compliance

The District's management 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 directly and materially affect a major federal program, to determine our auditing procedures for the purpose of opining 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 opining on the effectiveness of internal control over compliance. Accordingly, we have not opined 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, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program compliance requirement. 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 federal program compliance requirement will not be prevented, or timely detected and corrected.

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

We noted matters involving federal compliance or internal control over federal compliance not requiring inclusion in this report, that we reported to the District's management in a separate letter dated January 16, 2013.

We intend this report solely for the information and use of management, Board of Education, others within the District, federal awarding agencies, and pass-through entities. It is not intended for anyone other than these specified parties.



Dave Yost
Auditor of State

January 16, 2013

**NORTHWEST LOCAL SCHOOL DISTRICT
STARK COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2012**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material noncompliance at the financial statement level (GAGAS)?	Yes
(d)(1)(iv)	Were there any material internal control weaknesses reported for major federal programs?	No
(d)(1)(iv)	Were there any significant deficiencies in internal control reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under § .510(a)?	No
(d)(1)(vii)	Major Programs (list):	Education Jobs Fund - CFDA #84.410 State Fiscal Stabilization Fund - CFDA #84.394
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	Yes

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

FINDING NUMBER 2012-001

Noncompliance - Ohio Rev. Code Section 5705.10

Ohio Rev. Code Section 5705.10(H) indicates that money paid into a fund must be used only for the purposes for which such fund has been established. As a result, a negative fund cash balance indicates that money from one fund was used to cover the expenses of another fund. However, Ohio Rev. Code Section 3315.20 provides an allowable exception for school districts. Effective March 30, 2007, a school district may have a deficit in any special fund of the school district, but only if all of the following conditions are satisfied:

- The school district has a request for payment pending with the state sufficient to cover the amount of the deficit [R.C. § 3315.20(A)]
- There is a reasonable likelihood that the payment will be made [R.C. § 3315.20(A)]
- The unspent and unencumbered balance in the school district's general fund is greater than the aggregate of deficit amounts in all of the school district's special funds. [R.C. § 3315.20(B)]

At September 30, 2011, negative fund balances were noted for which the above conditions were not satisfied in the Building, Athletics, Race-to-the-Top, Title VI-B and State Fiscal Stabilization funds ranging from \$11,308 to \$205,750. In addition, at March 30, 2012, negative fund balances were noted in the Building, Athletics, Education Jobs, Race-to-the-Top, IDEA-B, and State Fiscal Stabilization funds ranging from \$6,033 to \$200,705. Finally, at June 30, 2012, negative fund balances were noted in the Building, Athletics, Education Jobs, and Race-to-the-Top funds ranging from \$683 to \$170,754.

The District should monitor fund balances throughout the year to help avoid negative fund balances. If a deficit spending situation arises, the District should ensure they meet the three above conditions or make the appropriate transfers/advances from the General Fund to eliminate the negative fund cash balances.

Official's Response: The Statement of Cash Position reflected negative balances in select funds. The monthly review of cash balances illustrated the negative balances identified. Appropriate action was delayed due to many reasons one of which pertained to the anticipated receipt of funds from the source of the revenue. Going forward the Treasurer affirms that any negative balances identified during the monthly review will have an appropriate action taken, whether by transfer, advance or delay in disbursement of funds, in order to eliminate the negative balance. All action taken, either a transfer or an advance, will be presented to the Board of Education for the proper approval. When sufficient funds are received and posted a resolution will be presented to the Board of Education at the next scheduled meeting for the return of any transfer or advance.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None

**NORTHWEST LOCAL SCHOOL DISTRICT
STARK COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2012**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2011-001	Ohio Rev. Code 5705.10 – During September 2010 and June 2011, the Building, Cafeteria, District Managed Student Activity and Auxiliary funds had negative fund balances ranging from (\$9,307) to (\$640,754).	No	Not Corrected – See 2012-001

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Dave Yost • Auditor of State

Independent Accountants' Report on Applying Agreed-Upon Procedure

Northwest Local School District
Stark County
2309 Locust Street South
Canal Fulton, Ohio 44614

To the Board of Education:

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

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

1. We noted the Board amended its anti-harassment policy at its meeting on June 18, 2012 to include violence within a dating relationship within its definition of harassment, intimidation or bullying.

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

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

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

Dave Yost
Auditor of State

January 16, 2013

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Dave Yost • Auditor of State

NORTHWEST LOCAL SCHOOL DISTRICT

STARK 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, 2013**