

Mary Taylor, CPA
Auditor of State

**NORTHWEST LOCAL SCHOOL DISTRICT
STARK COUNTY**

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Northwest Local School District
Stark County
8614 Erie Avenue N.W.
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, 2009, 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, 2009, 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.

As described in Note 3 and Note 8, the District's net assets and capital assets have been restated in order to account for errors in the District's capital assets reporting in prior year.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 14, 2010, 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.

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Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information accounting principles generally accepted in the United States of America requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

We conducted our audit to opine on the financial statements that collectively comprise the District's basic financial statements. The Federal Awards Receipts and Expenditures Schedule is required by 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. We subjected the Federal Awards Receipts and Expenditures Schedule to the auditing procedures applied in the audit of the basic financial statements. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in cursive script that reads "Mary Taylor".

Mary Taylor, CPA
Auditor of State

January 14, 2010

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

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, 2009. 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 2009 are as follows:

- In total, net assets of governmental activities increased \$283,970 which represents a 46.98% increase from 2008.
- General revenues accounted for \$18,024,142 in revenue or 84.57% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$3,287,729 or 15.43% of total revenues of \$21,311,871.
- The District had \$21,027,901 in expenses related to governmental activities; only \$3,287,729 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 \$18,024,142 were adequate to provide for these programs.
- The District has two major governmental funds. They are the general fund and debt service fund. The general fund had \$17,601,939 in revenues and other financing sources and \$17,591,818 in expenditures and other financing uses. During fiscal year 2009, the general fund's deficit balance decreased \$14,818 from a deficit balance of \$3,316,641 to a deficit balance of \$3,301,823.
- The debt service fund had \$1,637,649 in revenues and \$1,555,051 in expenditures. During fiscal year 2009, the debt service fund's fund balance increased \$82,598 from \$1,125,685 to \$1,208,283.

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 debt service 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, 2009

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 2009?" 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 13-14 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 debt service 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 15-19 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 20. 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, 2009

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 21-49 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 2009 and 2008. Net assets at June 30, 2008 have been restated, as described in Note 3.A. in the notes to the basic financial statements.

	Net Assets	
	Governmental Activities <u>2009</u>	(Restated) Governmental Activities <u>2008</u>
<u>Assets</u>		
Current and other assets	\$ 8,666,842	\$ 9,707,478
Capital assets, net	<u>25,788,751</u>	<u>26,450,092</u>
Total assets	<u>34,455,593</u>	<u>36,157,570</u>
<u>Liabilities</u>		
Current liabilities	10,059,098	11,241,024
Long-term liabilities	<u>23,508,086</u>	<u>24,312,107</u>
Total liabilities	<u>33,567,184</u>	<u>35,553,131</u>
<u>Net assets</u>		
Invested in capital assets, net of related debt	3,814,657	4,341,302
Restricted	2,243,382	1,900,488
Unrestricted (deficit)	<u>(5,169,630)</u>	<u>(5,637,351)</u>
Total net assets	<u>\$ 888,409</u>	<u>\$ 604,439</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2009, the District's assets exceeded liabilities by \$888,409. Of this total, \$2,243,382 is restricted in use leaving the District with an unrestricted net assets deficit of \$5,169,630.

At year-end, capital assets represented 74.85% of total assets. Capital assets include land, land improvements, buildings and improvements, furniture and equipment and vehicles. Capital assets, net of related debt to acquire the assets at June 30, 2009, were \$3,814,657. 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.

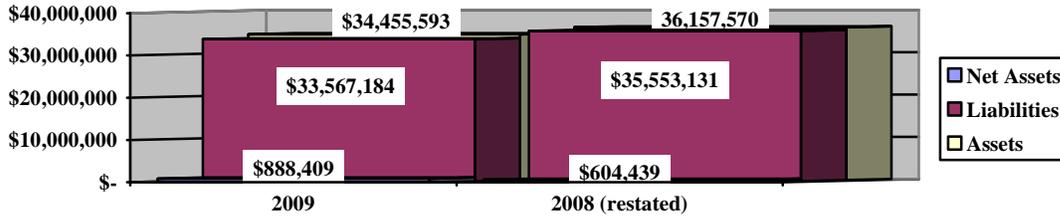
A portion of the District's net assets, \$2,243,382 represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets is a deficit of \$5,169,630.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

The graph below presents the District's assets, liabilities and net assets for fiscal years 2009 and 2008.

Governmental Activities



The table below shows the change in net assets for fiscal years 2009 and 2008. Intergovernmental pass-through expenditures for 2008 have been reclassified to operation of non-instructional services in order to conform to 2009 presentation.

Change in Net Assets

	Governmental Activities 2009	Governmental Activities 2008
<u>Revenues</u>		
Program revenues:		
Charges for services and sales	\$ 1,382,162	\$ 1,361,905
Operating grants and contributions	1,820,219	2,054,115
Capital grants and contributions	85,348	36,207
General revenues:		
Property taxes	8,113,358	8,444,817
Grants and entitlements	9,879,203	9,751,082
Investment earnings	15,229	67,737
Miscellaneous	16,352	41,164
Total revenues	21,311,871	21,757,027

--continued

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

Change in Net Assets - (Continued)

	<u>Governmental Activities 2009</u>	<u>Governmental Activities 2008</u>
<u>Expenses</u>		
Program expenses:		
Instruction:		
Regular	\$ 9,089,557	\$ 9,785,100
Special	2,668,708	2,677,787
Vocational	324,990	284,770
Other	121,041	88,382
Support services:		
Pupil	832,097	957,203
Instructional staff	309,925	288,200
Board of education	70,688	39,685
Administration	1,721,416	1,871,832
Fiscal	429,955	414,383
Operations and maintenance	1,769,635	1,884,654
Pupil transportation	1,128,761	1,280,721
Central	274,357	400,355
Operations of non-instructional services	101,166	98,284
Extracurricular activities	402,851	496,595
Food service operations	791,954	832,309
Interest and fiscal charges	<u>990,800</u>	<u>1,046,041</u>
Total expenses	<u>21,027,901</u>	<u>22,446,301</u>
Change in net assets	283,970	(689,274)
Net assets at beginning of year (restated)	<u>604,439</u>	<u>1,293,713</u>
Net assets at end of year	<u>\$ 888,409</u>	<u>\$ 604,439</u>

Governmental Activities

Net assets of the District's governmental activities increased \$283,970. Total governmental expenses of \$21,027,901 were offset by program revenues of \$3,287,729 and general revenues of \$18,024,142. Program revenues supported 15.64% of the total governmental expenses.

The primary sources of revenue for governmental activities are derived from property taxes and grants and entitlements. These revenue sources represent 84.43% of total governmental revenue.

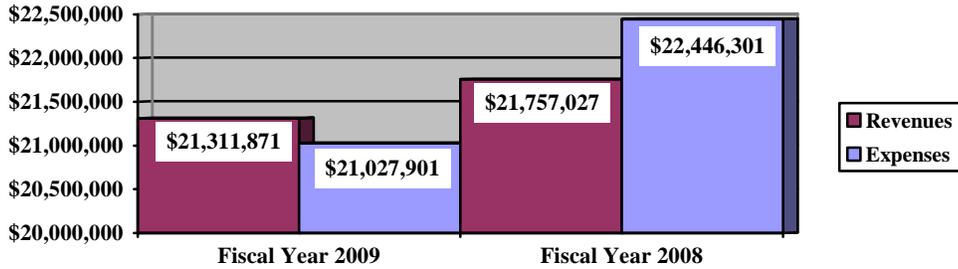
The largest expense of the District is for instructional programs. Instruction expenses totaled \$12,204,296 or 58.04% of total governmental expenses for fiscal year 2009.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

The graph below presents the District's governmental activities revenue and expenses for fiscal years 2009 and 2008.

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 State grants and entitlements. Intergovernmental pass-through expenditures for 2008 have been reclassified to operation of non-instructional services in order to conform to 2009 presentation.

Governmental Activities

	Total Cost of Services 2009	Net Cost of Services 2009	Total Cost of Services 2008	Net Cost of Services 2008
Program expenses				
Instruction:				
Regular	\$ 9,089,557	\$ 8,330,276	\$ 9,785,100	\$ 9,064,534
Special	2,668,708	1,645,449	2,677,787	1,458,843
Vocational	324,990	279,319	284,770	223,376
Other	121,041	121,041	88,382	88,382
Support services:				
Pupil	832,097	639,464	957,203	753,157
Instructional staff	309,925	309,925	288,200	288,200
Board of education	70,688	70,688	39,685	39,685
Administration	1,721,416	1,714,059	1,871,832	1,863,304
Fiscal	429,955	429,955	414,383	414,383
Operations and maintenance	1,769,635	1,743,750	1,884,654	1,847,212
Pupil transportation	1,128,761	994,922	1,280,721	1,212,867
Central	274,357	185,144	400,355	283,801
Operation of non-instructional services	101,166	(18,185)	98,284	(15,922)
Extracurricular activities	402,851	224,182	496,595	314,393
Food service operations	791,954	79,383	832,309	111,818
Interest and fiscal charges	990,800	990,800	1,046,041	1,046,041
Total	<u>\$ 21,027,901</u>	<u>\$ 17,740,172</u>	<u>\$ 22,446,301</u>	<u>\$ 18,994,074</u>

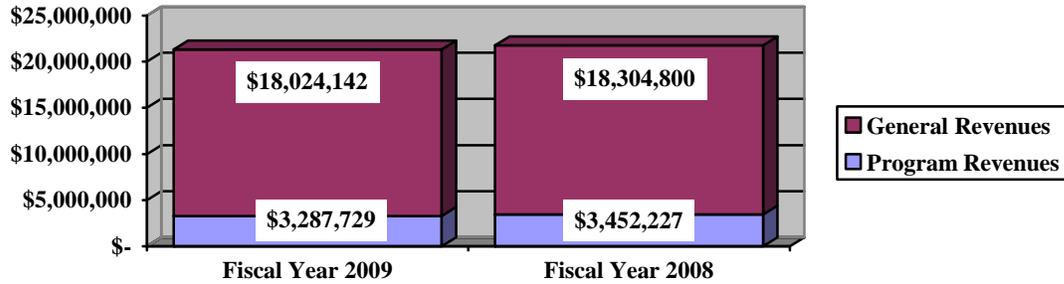
The dependence upon tax and other general revenues for governmental activities is apparent, 85.02% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 84.36%. The District's taxpayers and grants and entitlements, as a whole, are by far the primary support for District's students.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

The graph below presents the District's governmental activities revenue for fiscal years 2009 and 2008.

Governmental Activities - General and Program Revenues



The District's Funds

The District's governmental funds (as presented on the balance sheet on page 15) reported a combined fund deficit of \$2,004,153, which is less than last year combined fund deficit of \$2,218,272. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2009 and 2008.

	Fund Balance (Deficit) <u>June 30, 2009</u>	Fund Balance (Deficit) <u>June 30, 2008</u>	<u>Increase</u>
General	\$ (3,301,823)	\$ (3,316,641)	\$ 14,818
Debt service	1,208,283	1,125,685	82,598
Other governmental	<u>89,387</u>	<u>(27,316)</u>	<u>116,703</u>
Total	<u>\$ (2,004,153)</u>	<u>\$ (2,218,272)</u>	<u>\$ 214,119</u>

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

General Fund

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

	<u>2009</u> <u>Amount</u>	<u>2008</u> <u>Amount</u>	<u>Increase</u> <u>(Decrease)</u>	<u>Percentage</u> <u>Change</u>
<u>Revenues</u>				
Taxes	\$ 6,483,561	\$ 6,680,749	\$ (197,188)	(2.95) %
Tuition	518,483	572,592	(54,109)	(9.45) %
Earnings on investments	6,416	37,428	(31,012)	(82.86) %
Intergovernmental	10,377,815	10,286,237	91,578	0.89 %
Other revenues	<u>215,484</u>	<u>114,479</u>	<u>101,005</u>	88.23 %
Total	<u>\$ 17,601,759</u>	<u>\$ 17,691,485</u>	<u>\$ (89,726)</u>	(0.51) %
<u>Expenditures</u>				
Instruction	\$ 11,012,677	\$ 11,955,748	\$ (943,071)	(7.89) %
Support services	6,202,412	6,572,410	(369,998)	(5.63) %
Operation of non-instructional services	-	224	(224)	(100.00) %
Extracurricular activities	<u>218,229</u>	<u>257,314</u>	<u>(39,085)</u>	(15.19) %
Total	<u>\$ 17,433,318</u>	<u>\$ 18,785,696</u>	<u>\$ (1,352,378)</u>	(7.20) %

Tax revenues continued to fall decreasing by 2.95%, which is primarily due to the phase-out of tangible personal property taxes. Tuition revenue decreased 9.45% over the prior fiscal year. This is due to the District receiving less in open enrollment revenue. The earnings on investments in the general fund decreased 82.86%, which can be attributed to lower interest rates during the year, as well as the District having less cash available to invest. The increase in other revenues is due to more money being received from local sources, particularly revenues received for classroom materials and fees. The decrease in expenditures is a result of the District's attempts to cut extraneous costs.

Debt Service Fund

The District's debt service fund balance increased \$82,598. The debt service fund had revenues of \$1,637,649 and expenditures of \$1,555,051. The primary revenue source was from taxes which was \$1,411,259 in fiscal year 2009. During fiscal year 2009, the debt service fund made \$630,000 in principal payments and \$901,765 in interest payments.

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.

During the course of fiscal year 2009, the District amended its general fund budget numerous times. For the general fund, final budgeted revenues and other financing sources were \$17,822,498, which is \$9,526,477 less than the original budgeted estimate of \$27,348,975. The majority of this decrease is due to State foundation revenues that were significantly lower than originally budgeted. Actual revenues and other financing sources for fiscal year 2009 were \$17,569,973. This represents a \$252,525 decrease from the final budgeted amounts.

General fund final appropriations (appropriated expenditures) were \$18,092,732, which was \$303,580 greater than original budgeted appropriations of \$17,789,152. The actual budget basis expenditures for fiscal year 2009 totaled \$18,012,346, which was \$80,386 less than the final budget appropriations.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2009, the District had \$25,884,108 invested in land, land improvements, buildings and improvements, furniture and equipment and vehicles. This entire amount is reported in governmental activities. 2008 capital asset balances were restated, as described in Note 3.A. in the notes to the basic financial statements. The following table shows fiscal 2009 balances compared to 2008:

	Capital Assets at June 30 (Net of Depreciation)	
	<u>Governmental Activities</u>	
	<u>2009</u>	(Restated) <u>2008</u>
Land	\$ 137,915	\$ 137,915
Land improvements	272,644	293,307
Buildings and improvements	24,521,267	24,984,014
Furniture and equipment	647,528	735,011
Vehicles	<u>209,397</u>	<u>299,845</u>
Total	<u>\$ 25,788,751</u>	<u>\$ 26,450,092</u>

The overall decrease in capital assets of \$661,341 is due to depreciation expense of \$963,400 exceeding capital asset additions of \$302,059 during fiscal year 2009.

See Note 8 to the basic financial statements for additional information on the District's capital assets.

Debt Administration

At June 30, 2009, the District had \$20,695,094 in general obligation bonds and \$1,279,000 in lease-purchase agreements. The general obligation bonds total includes \$395,094 in unamortized premium on the bond issue. Of the total outstanding debt, \$671,000 is due within one year and \$21,303,094 is due in more than one year. The following table summarizes the District's outstanding debt.

	Outstanding Debt at Year End	
	Governmental Activities	Governmental Activities
	<u>2009</u>	<u>2008</u>
General obligation bonds (includes unamortized premium)	\$ 20,695,094	\$ 21,310,569
Lease-purchase agreement	<u>1,279,000</u>	<u>1,318,000</u>
Total	<u>\$ 21,974,094</u>	<u>\$ 22,628,569</u>

See Notes 9 and 10 to the basic financial statements for additional information on the District's debt administration.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

Current Financial Related Activities

The District has continued to maintain the highest standards of service to our students, parents and community. The District is always presented with challenges and opportunities. National events economically affect the District and the surrounding area. The District is still reviewing and analyzing the impact this has on the personal property tax base and collections.

The District's financial base for operations is being stretched due to revenues remaining stagnant while expenditures continue to increase. The District placed a .75% Income Tax on the March 2008 ballot which would have raised \$1.8 million for general operations. However, this levy was defeated. This levy defeat also led to the District being placed in Fiscal Caution by the Ohio Department of Education (ODE) on July 14, 2008. A plan was submitted to ODE detailing how the District would proceed to become fiscally solvent. The plan was based on expenditures being cut in the amount of \$1,500,000 at the start of fiscal year 2009 and also at the start of fiscal year 2010. If future levy issues do not pass the Board of Education has approved additional cuts after fiscal year 2011 that will continue to negatively impact the quality of education that the District is able to provide to students.

During the fiscal year the District Board of Education voted to place a levy issue on the ballot in the November election, the February election, and finally the May election. The November election presented the community with a 12.8 mil 10 year Emergency Levy for school operations. Despite over 3,400 positive votes the levy was defeated by a 52% - 48% margin. The closeness of the final tally led the Board of Education to put the same issue on the ballot in February and May of 2009 and each time the 12.8 mil ten year levy was defeated by similar 54% - 46% margins.

On June 20, 2009 the Northwest Board of Education held a public hearing on the topic of moving 1.5 mills of inside millage to a permanent improvement fund. The proposal to move the millage would allow the Northwest School District to move forward with the Ohio School Facilities Classroom Facilities Assistance Program portion of the previously approved building program. An audience of more than sixty community members gathered to ask questions and express their views on the issue. After the hearing the Northwest Board of Education held their regular monthly meeting at which time a resolution authorizing the moving of 1.5 inside mills to permanent improvement was unanimously approved.

Several significant legislative and judicial actions have occurred that will have a major impact on the District. The Ohio Supreme Court ruled in March 1997 that the State of Ohio was operating an unconstitutional educational system, one that was neither "adequate" nor "equitable." The State has not yet developed a school funding plan that has been deemed acceptable by the Court, and ultimate resolution still seems to be some time in the future. There is concern that the State may not have the ability to fully fund the previously approved subsidies for primary and secondary education in the State budget. Changes to the State's school foundation funding formula did not bode well for additional revenue, and in fact, caused a decline in foundation funding for 2009. In spite of this, the District has committed itself to educational and financial excellence. The District is committed to living within its financial means, and working with the community it serves in order to garner adequate resources to support the educational program.

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, 8614 Erie Avenue N., Canal Fulton, Ohio 44614.

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

STATEMENT OF NET ASSETS
JUNE 30, 2009

	Governmental Activities
Assets:	
Equity in pooled cash and cash equivalents.	\$ 201,757
Cash with fiscal agent.	152
Receivables:	
Taxes	7,992,408
Accounts	229
Intergovernmental	187,353
Prepayments.	13,441
Materials and supplies inventory	41,112
Unamortized bond issue costs.	230,390
Capital assets:	
Land	137,915
Depreciable capital assets, net	25,650,836
Total capital assets, net	25,788,751
 Total assets	 34,455,593
Liabilities:	
Accounts payable	168,925
Retainage payable.	152
Accrued wages and benefits	2,005,951
Pension obligation payable.	418,126
Intergovernmental payable	195,855
Accrued interest payable	74,097
Unearned revenue.	7,195,992
Long-term liabilities:	
Due within one year.	739,601
Due in more than one year	22,768,485
Total liabilities	33,567,184
Net assets:	
Invested in capital assets, net of related debt.	3,814,657
Restricted for:	
Capital projects	667,041
Debt service.	1,194,003
Locally funded programs	2,635
State funded programs	49,433
Federally funded programs	94,874
Other purposes	235,396
Unrestricted (deficit)	(5,169,630)
Total net assets	\$ 888,409

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, 2009

	Expenses	Program Revenues			Net (Expense)
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Revenue and Changes in Net Assets
					Governmental Activities
Governmental activities:					
Instruction:					
Regular	\$ 9,089,557	\$ 658,554	\$ 100,727	\$ -	\$ (8,330,276)
Special	2,668,708	25,277	997,982	-	(1,645,449)
Vocational	324,990	-	45,671	-	(279,319)
Other	121,041	-	-	-	(121,041)
Support services:					
Pupil	832,097	-	192,633	-	(639,464)
Instructional staff	309,925	-	-	-	(309,925)
Board of education	70,688	-	-	-	(70,688)
Administration	1,721,416	-	7,357	-	(1,714,059)
Fiscal	429,955	-	-	-	(429,955)
Operations and maintenance	1,769,635	11,414	-	14,471	(1,743,750)
Pupil transportation	1,128,761	-	62,962	70,877	(994,922)
Central	274,357	45,815	43,398	-	(185,144)
Operation of non-instructional services	101,166	-	119,351	-	18,185
Extracurricular activities	402,851	178,669	-	-	(224,182)
Food service operations	791,954	462,433	250,138	-	(79,383)
Interest and fiscal charges	990,800	-	-	-	(990,800)
Total governmental activities	\$ 21,027,901	\$ 1,382,162	\$ 1,820,219	\$ 85,348	(17,740,172)

General revenues:

Property taxes levied for:	
General purposes	6,539,928
Debt service	1,417,713
Capital projects	155,717
Grants and entitlements not restricted	
to specific programs	9,879,203
Investment earnings	15,229
Miscellaneous	16,352
Total general revenues	18,024,142
Change in net assets	283,970
Net assets at beginning of year (restated)	604,439
Net assets at end of year	\$ 888,409

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2009

	<u>General</u>	<u>Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:				
Equity in pooled cash and cash equivalents	\$ -	\$ -	\$ 96,507	\$ 96,507
Cash with fiscal agent	-	-	152	152
Receivables:				
Taxes	6,496,411	1,357,811	138,186	7,992,408
Accounts	229	-	-	229
Intergovernmental	59,883	-	127,470	187,353
Due from other funds	-	1,128,472	847,477	1,975,949
Prepayments	13,441	-	-	13,441
Materials and supplies inventory	8,650	-	32,462	41,112
Restricted assets:				
Equity in pooled cash and cash equivalents	105,250	-	-	105,250
Total assets.	<u>\$ 6,683,864</u>	<u>\$ 2,486,283</u>	<u>\$ 1,242,254</u>	<u>\$ 10,412,401</u>
Liabilities:				
Accounts payable	\$ 133,320	\$ -	\$ 35,605	\$ 168,925
Retainage payable	-	-	152	152
Accrued wages and benefits	1,864,484	-	141,467	2,005,951
Compensated absences payable	-	-	15,000	15,000
Pension obligation payable.	392,400	-	25,726	418,126
Intergovernmental payable	184,345	-	11,510	195,855
Due to other funds.	1,246,554	-	729,395	1,975,949
Deferred revenue.	312,370	59,817	68,417	440,604
Unearned revenue.	5,852,214	1,218,183	125,595	7,195,992
Total liabilities	<u>9,985,687</u>	<u>1,278,000</u>	<u>1,152,867</u>	<u>12,416,554</u>
Fund balances:				
Reserved for encumbrances	102,372	-	86,053	188,425
Reserved for materials and supplies inventory	8,650	-	32,462	41,112
Reserved for debt service	-	1,128,472	-	1,128,472
Reserved for instructional materials.	105,250	-	-	105,250
Reserved for property tax unavailable for appropriation	366,046	79,811	6,994	452,851
Reserved for prepayments	13,441	-	-	13,441
Unreserved, undesignated (deficit), reported in:				
General fund	(3,897,582)	-	-	(3,897,582)
Special revenue funds.	-	-	40,589	40,589
Capital projects funds.	-	-	(76,711)	(76,711)
Total fund balances (deficit)	<u>(3,301,823)</u>	<u>1,208,283</u>	<u>89,387</u>	<u>(2,004,153)</u>
Total liabilities and fund balances.	<u>\$ 6,683,864</u>	<u>\$ 2,486,283</u>	<u>\$ 1,242,254</u>	<u>\$ 10,412,401</u>

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, 2009

Total governmental fund balances (deficit)		\$ (2,004,153)
<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.		25,788,751
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		
Taxes receivable	\$ 343,565	
Intergovernmental receivable	97,039	
Total	440,604	
Unamortized premiums on bond issuances are not recognized in the funds.		(395,094)
Unamortized bond issue costs are not recognized in the funds.		230,390
Accrued interest payable is not due and payable in the current period and therefore is not reported in the funds.		(74,097)
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	20,300,000	
Compensated absences	1,518,992	
Lease-purchase obligation	1,279,000	
Total	(23,097,992)	
Net assets of governmental activities		\$ 888,409

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, 2009

	<u>General</u>	<u>Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:				
From local sources:				
Taxes	\$ 6,483,561	\$ 1,411,259	\$ 154,735	\$ 8,049,555
Tuition.	518,483	-	-	518,483
Earnings on investments.	6,416	8,813	1,596	16,825
Charges for services	-	-	462,433	462,433
Extracurricular.	28,363	-	183,644	212,007
Classroom materials and fees.	159,535	-	-	159,535
Other local revenues.	27,586	-	75,008	102,594
Intergovernmental - State	10,377,815	217,577	183,158	10,778,550
Intergovernmental - Federal.	-	-	934,757	934,757
Total revenue	<u>17,601,759</u>	<u>1,637,649</u>	<u>1,995,331</u>	<u>21,234,739</u>
Expenditures:				
Current:				
Instruction:				
Regular	8,366,663	-	106,833	8,473,496
Special.	2,202,555	-	442,577	2,645,132
Vocational.	322,418	-	-	322,418
Other	121,041	-	-	121,041
Support services:				
Pupil.	628,311	-	225,004	853,315
Instructional staff	297,374	-	-	297,374
Board of education	70,688	-	-	70,688
Administration.	1,705,785	-	7,664	1,713,449
Fiscal	399,862	23,286	3,381	426,529
Operations and maintenance	1,917,826	-	307,090	2,224,916
Pupil transportation	994,093	-	-	994,093
Central.	188,473	-	83,355	271,828
Operation of non-instructional services	-	-	96,905	96,905
Extracurricular activities.	218,229	-	175,022	393,251
Food service operations	-	-	719,697	719,697
Debt service:				
Principal retirement	-	630,000	39,000	669,000
Interest and fiscal charges	-	901,765	64,276	966,041
Total expenditures	<u>17,433,318</u>	<u>1,555,051</u>	<u>2,270,804</u>	<u>21,259,173</u>
Excess (deficiency) of revenues over (under) expenditures	<u>168,441</u>	<u>82,598</u>	<u>(275,473)</u>	<u>(24,434)</u>
Other financing sources (uses):				
Transfers in	-	-	158,500	158,500
Transfers out.	(158,500)	-	-	(158,500)
Sale of capital assets	180	-	-	180
Insurance proceeds.	-	-	229,064	229,064
Total other financing sources (uses)	<u>(158,320)</u>	<u>-</u>	<u>387,564</u>	<u>229,244</u>
Net change in fund balances	10,121	82,598	112,091	204,810
Fund balance (deficit) at beginning of year	(3,316,641)	1,125,685	(27,316)	(2,218,272)
Increase in reserve for inventory	4,697	-	4,612	9,309
Fund balances (deficit) at end of year	<u>\$ (3,301,823)</u>	<u>\$ 1,208,283</u>	<u>\$ 89,387</u>	<u>\$ (2,004,153)</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, 2009

Net change in fund balances - total governmental funds	\$	204,810
<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 depreciation expense exceeds capital outlays in the current period.		
Capital asset additions	\$ 302,059	
Current year depreciation	<u>(963,400)</u>	
Total		(661,341)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Taxes	63,803	
Intergovernmental revenue	<u>13,149</u>	
Total		76,952
In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, interest is expensed when due. The following items resulted in more interest expense being reported in the statement of activities:		
Decrease in accrued interest	1,050	
Accreted interest on "capital appreciation bonds"	(33,877)	
Amortization of bond premium	19,352	
Amortization of bond issuance costs	<u>(11,284)</u>	
Total		(24,759)
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.		
		669,000
Governmental funds report expenditures for inventory when purchased, however, on the statement of activities, they are reported as expenditures when consumed.		
		9,309
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.		
		<u>9,999</u>
Change in net assets of governmental activities	\$	<u>283,970</u>

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, 2009

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
From local sources:				
Taxes	\$ 10,057,924	\$ 6,554,445	\$ 6,481,500	\$ (72,945)
Tuition.	645,796	420,846	518,483	97,637
Earnings on investments.	18,414	12,000	6,416	(5,584)
Extracurricular.	16,880	11,000	28,483	17,483
Classroom materials and fees	102,046	66,500	159,577	93,077
Other local revenues.	52,174	34,000	27,751	(6,249)
Intergovernmental - State	16,451,137	10,720,707	10,347,583	(373,124)
Total revenue	<u>27,344,371</u>	<u>17,819,498</u>	<u>17,569,793</u>	<u>(249,705)</u>
Expenditures:				
Current:				
Instruction:				
Regular	8,385,574	8,528,678	8,523,081	5,597
Special.	2,493,381	2,535,932	2,494,146	41,786
Vocational.	313,047	318,389	316,977	1,412
Other.	119,628	121,669	121,477	192
Support services:				
Pupil.	650,256	661,353	654,486	6,867
Instructional staff	301,769	306,919	305,686	1,233
Board of education	63,886	64,976	64,945	31
Administration.	1,676,816	1,705,432	1,699,579	5,853
Fiscal	381,646	388,159	388,069	90
Operations and maintenance	1,811,230	1,842,139	1,835,331	6,808
Pupil transportation	1,006,351	1,023,525	1,020,582	2,943
Central.	214,855	218,522	210,948	7,574
Extracurricular activities.	214,872	218,539	218,539	-
Total expenditures	<u>17,633,311</u>	<u>17,934,232</u>	<u>17,853,846</u>	<u>80,386</u>
Excess (deficiency) of revenues over (under) expenditures.	<u>9,711,060</u>	<u>(114,734)</u>	<u>(284,053)</u>	<u>(169,319)</u>
Other financing sources (uses):				
Transfers out	(155,841)	(158,500)	(158,500)	-
Sale of assets.	4,604	3,000	180	(2,820)
Total other financing sources	<u>(151,237)</u>	<u>(155,500)</u>	<u>(158,320)</u>	<u>(2,820)</u>
Net change in fund balance	9,559,823	(270,234)	(442,373)	(172,139)
Fund balance (deficit) at beginning of year .	(1,161,324)	(1,161,324)	(1,161,324)	-
Prior year encumbrances appropriated . . .	271,176	271,176	271,176	-
Fund balance (deficit) at end of year	<u>\$ 8,669,675</u>	<u>\$ (1,160,382)</u>	<u>\$ (1,332,521)</u>	<u>\$ (172,139)</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUND
JUNE 30, 2009

		<u>Agency</u>
Assets:		
Equity in pooled cash and cash equivalents	\$	78,748
Receivables:		
Accounts		<u>91</u>
 Total assets	 \$	 <u><u>78,839</u></u>
Liabilities:		
Accounts payable	\$	2,215
Due to students.		<u>76,624</u>
 Total liabilities.	 \$	 <u><u>78,839</u></u>

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, 2009

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 ranks as the 214th largest by total enrollment among the 922 public and community school districts in the State. The District employs 98 non-certified and 157 certified employees to provide services to approximately 2,263 students in grades K through 12 and various community groups. The District operates two elementary schools, one intermediate school, 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) Statements and Interpretations issued on or before November 30, 1989, to its governmental activities provided they do 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, 2009
(CONTINUED)

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, which amounted to \$75,825 during fiscal year 2009. 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 district's 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, 6805 Richville Drive, S.W., 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.

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, 2009
(CONTINUED)

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 Comp Management, 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 all financial resources except those required to be accounted for 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.

Debt service fund - The debt service fund is used to account for the accumulation of resources and payment of general obligation bond and note principal, interest and related costs.

Other governmental funds of the District are used to account for (a) financial resources to be used for the acquisition, construction, or improvement of capital facilities; (b) food service operations; and (c) grants and other resources whose use is restricted to a particular purpose.

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.

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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(CONTINUED)

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

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.

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.

**NORTHWEST LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(CONTINUED)

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

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, 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, 2009, but which were levied to finance fiscal year 2010 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, 2009 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.

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.

**NORTHWEST LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(CONTINUED)

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

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 Commissions' 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.

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.

**NORTHWEST LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(CONTINUED)

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

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 2009, investments were limited to investments in 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 2009. 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, 2009.

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 2009 amounted to \$6,416, all of which includes interest 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.

**NORTHWEST LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(CONTINUED)

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

G. Inventory

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

On the fund financial statements, reported material and supplies inventory is equally offset by a fund balance reserve 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.

All reported capital assets except land 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.

**NORTHWEST LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(CONTINUED)

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

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 and lease purchase obligations are recognized as a liability in the fund financial statements when due.

L. Unamortized Bond Issuance Costs and Bond Premium

On government-wide financial statements, bond issuance costs are deferred and amortized over the term of the bonds using the straight line method, which approximates the effective interest method. Unamortized bond issuance costs are recorded as an asset on the financial statements.

Bond premiums are deferred and accreted over the term of the bonds. Bond premiums are presented as an addition to the face amount of the bonds. Capital appreciation bond discounts are accreted over the term of the bonds.

On the governmental fund financial statements, issuance costs and bond premiums are recognized in the current period.

**NORTHWEST LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(CONTINUED)

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

M. Fund Balance Reserves

The District reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves have been established for encumbrances, prepayments, materials and supplies inventory, debt service, property taxes unavailable for appropriation and instructional materials. The reserve for property taxes unavailable for appropriation represents taxes recognized as revenue under GAAP, but not available for appropriation under State statute.

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 amount restricted for other purposes represent amounts restricted by State statute for instructional materials and public school support.

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 reserved 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. 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. Restricted assets include the amount required by State statute to be set-aside for State monies received for instructional materials. See Note 17 for additional information regarding set-asides.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(CONTINUED)

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

R. 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.

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 2009.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Prior Period Adjustment

Beginning net assets of governmental activities have been restated in order to account for errors in the District's capital assets reporting in prior years. The net effect of the adjustment was to decrease net assets of governmental activities by \$95,357. See Note 8 for detail.

B. Change in Accounting Principles

For fiscal year 2009, the District has implemented GASB Statement No. 49, "Accounting and Financial Reporting for Pollution Remediation Obligations", GASB Statement No. 52, "Land and Other Real Estate Held as Investments by Endowments", GASB Statement No. 55, "The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments", and GASB Statement No. 56 "Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards".

GASB Statement No. 49 addresses accounting and financial reporting standards for pollution remediation obligations, which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and cleanups. The implementation of GASB Statement No. 49 did not have an effect on the financial statements of the District.

GASB Statement No. 52 improves the quality of financial reporting by requiring endowments to report their land and other real estate investments at fair value, creating consistency in reporting among similar entities that exist to invest resources for the purpose of generating income. The implementation of GASB Statement No. 52 did not have an effect on the financial statements of the District.

GASB Statement No. 55 incorporates the hierarchy of generally accepted accounting principles (GAAP) for state and local governments into the GASB's authoritative literature. The implementation of GASB Statement No. 55 did not have an effect on the financial statements of the District.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(CONTINUED)

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

GASB Statement No. 56 incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance presented in the American Institute of Certified Public Accountants' (AICPA) Statements on Auditing Standards. The implementation of GASB Statement No. 56 did not have an effect on the financial statements of the District.

C. Deficit Fund Balances

Fund balances at June 30, 2009 included the following individual fund deficits:

<u>Major governmental fund</u>	<u>Deficit</u>
General	\$ 3,301,823
 <u>Nonmajor governmental funds</u>	
Food service	56,323
District managed student activity	5,893
Building	729,261

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 general fund and building capital projects fund did not comply with State law which does not allow for a negative cash balance at year end.

D. Compliance

Contrary to Ohio Revised Code Section 5705.10, the District had the following negative cash balances at June 30, 2009 in the following funds:

<u>Major governmental fund</u>	<u>Balance</u>
General	\$ (1,141,304)
 <u>Nonmajor governmental funds</u>	
Miscellaneous federal grants	134
Building	729,109

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.

**NORTHWEST LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(CONTINUED)

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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);
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.

**NORTHWEST LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(CONTINUED)

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

A. Cash on Hand

At fiscal year end, the District had \$3,700 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 Fiscal Agent

The District has money held in accounts by other agents for retainage related to construction contracts. The money held by the fiscal 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 fiscal agent at June 30, 2009 was \$152 and is not included in “deposits with financial institutions” below.

C. Deposits with Financial Institutions

At June 30, 2009, the carrying amount of all District deposits was \$266,159. Based on the criteria described in GASB Statement No. 40, “Deposits and Investment Risk Disclosures”, as of June 30, 2009, \$133,933 of the District’s bank balance of \$553,526 was exposed to custodial risk as discussed below, while \$419,593 was covered by the FDIC.

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.

D. Investments

As of June 30, 2009, the District had the following investments and maturities:

<u>Investment type</u>	<u>Fair Value</u>	<u>Investment Maturities</u> 6 months or less
STAR Ohio	\$ 10,646	\$ 10,646

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 AAA and Aaa by Standard & Poor’s and Moody’s Investor Services, respectively. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service.

**NORTHWEST LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(CONTINUED)

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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, 2009:

<u>Investment type</u>	<u>Fair Value</u>	<u>% of Total</u>
STAR Ohio	\$ 10,646	<u>100</u>

E. 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, 2009:

<u>Cash and investments per note</u>	
Carrying amount of deposits	\$ 266,159
Investments	10,646
Cash with fiscal agent	152
Cash on hand	<u>3,700</u>
Total	<u>\$ 280,657</u>
<u>Cash and investments per statement of net assets</u>	
Governmental activities	\$ 201,909
Agency fund	<u>78,748</u>
Total	<u>\$ 280,657</u>

NOTE 5 - INTERFUND TRANSACTIONS

A. Due to/from other funds consisted of the following at June 30, 2009:

<u>Receivable fund</u>	<u>Payable fund</u>	<u>Amount</u>
Debt service	General	\$ 1,128,472
Nonmajor governmental funds	General	118,082
Nonmajor governmental funds	Nonmajor governmental funds	729,395

The primary purpose of the interfund balances is to cover costs in specific funds where revenues were not received by June 30. 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; therefore, no internal balances at June 30, 2009 are reported on the statement of net assets.

**NORTHWEST LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(CONTINUED)

NOTE 5 - INTERFUND TRANSACTIONS - (Continued)

- B.** Interfund transfers for the year ended June 30, 2009, consisted of the following, as reported on the fund financial statements:

Transfers to nonmajor governmental funds from:	<u>Amount</u>
General fund	<u>\$ 158,500</u>

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, and (2) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

Interfund transfers between governmental funds are eliminated for reporting in the statement of activities.

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.

Property taxes include amounts levied against all real property, public utility property and tangible personal (used in business) property located in the District. Real property tax revenues received in calendar year 2009 represent the collection of calendar year 2008 taxes. Real property taxes received in calendar year 2009 were levied after April 1, 2008, on the assessed values as of January 1, 2008, 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 2009 represent the collection of calendar year 2008 taxes. Public utility real and tangible personal property taxes received in calendar year 2009 became a lien on December 31, 2007, were levied after April 1, 2008, 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.

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

**NORTHWEST LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(CONTINUED)

NOTE 6 - PROPERTY TAXES - (Continued)

The District receives property taxes from Stark, Summit and Wayne Counties. The County Auditors, or the County Fiscal Officer in the case of Summit County, periodically advance to the District its portion of the taxes collected. Second-half real property tax payments collected by the Counties by June 30, 2009, are available to finance fiscal year 2009 operations. The amount available as an advance at June 30, 2009 was \$366,046 in the general fund, \$79,811 in the bond retirement debt service fund and \$6,994 in the permanent improvement fund (a nonmajor governmental fund). These amounts are recorded as revenue. The amount available for advance at June 30, 2008 was \$363,985 in the general fund, \$89,462 in the bond retirement debt service fund and \$6,900 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 tangible personal property taxes which are measurable as of June 30, 2009 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.

The assessed values upon which the fiscal year 2009 taxes were collected are:

	2008 Second Half Collections		2009 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and other real estate	\$ 263,432,230	96.01	\$ 265,901,610	96.90
Public utility personal	5,312,570	1.94	5,303,880	1.93
Tangible personal property	<u>5,617,375</u>	<u>2.05</u>	<u>3,192,632</u>	<u>1.17</u>
Total	<u>\$ 274,362,175</u>	<u>100.00</u>	<u>\$ 274,398,122</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation for:				
Operations	\$51.90		\$49.90	
Permanent improvements	3.00		3.00	
Debt service	7.00		7.00	

**NORTHWEST LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(CONTINUED)

NOTE 7 - RECEIVABLES

Receivables at June 30, 2009 consisted of taxes, accounts (billings for user charged services and student fees) and intergovernmental grants and entitlements. 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		\$ 7,992,408
Accounts		229
Intergovernmental		<u>187,353</u>
Total		<u>\$ 8,179,990</u>

Receivables have been disaggregated on the face of the basic financial statements. All receivables are expected to be collected within the subsequent year.

NOTE 8 - CAPITAL ASSETS

Capital assets have been restated due to errors in the District's capital assets reporting in prior years. The effect of the restatement was to decrease the net capital asset balance by \$95,357, as detailed below:

	Balance <u>6/30/08</u>	<u>Adjustments</u>	Restated Balance <u>6/30/08</u>
Governmental activities:			
<i>Capital assets, not being depreciated:</i>			
Land	\$ 133,138	\$ 4,777	\$ 137,915
Total capital assets, not being depreciated	<u>133,138</u>	<u>4,777</u>	<u>137,915</u>
<i>Capital assets, being depreciated:</i>			
Land improvements	314,012	-	314,012
Buildings and improvements	30,114,187	2,293	30,116,480
Furniture and equipment	2,206,832	(713,504)	1,493,328
Vehicles	<u>1,541,704</u>	<u>-</u>	<u>1,541,704</u>
Total capital assets, being depreciated	<u>34,176,735</u>	<u>(711,211)</u>	<u>33,465,524</u>
<i>Less: accumulated depreciation</i>			
Land improvements	(15,928)	(4,777)	(20,705)
Buildings and improvements	(5,088,495)	(43,971)	(5,132,466)
Furniture and equipment	(1,418,142)	659,825	(758,317)
Vehicles	<u>(1,241,859)</u>	<u>-</u>	<u>(1,241,859)</u>
Total accumulated depreciation	<u>(7,764,424)</u>	<u>611,077</u>	<u>(7,153,347)</u>
Governmental activities capital assets, net	<u>\$ 26,545,449</u>	<u>\$ (95,357)</u>	<u>\$ 26,450,092</u>

**NORTHWEST LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(CONTINUED)

NOTE 8 - CAPITAL ASSETS - (Continued)

Capital asset activity for the fiscal year ended June 30, 2009, was as follows:

	Restated Balance <u>6/30/08</u>	<u>Additions</u>	<u>Deductions</u>	Balance <u>6/30/09</u>
Governmental activities:				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 137,915	\$ -	\$ -	\$ 137,915
Total capital assets, not being depreciated	<u>137,915</u>	<u>-</u>	<u>-</u>	<u>137,915</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	314,012	-	-	314,012
Buildings and improvements	30,116,480	245,520	-	30,362,000
Furniture and equipment	1,493,328	49,239	(10,179)	1,532,388
Vehicles	<u>1,541,704</u>	<u>7,300</u>	<u>-</u>	<u>1,549,004</u>
Total capital assets, being depreciated	<u>33,465,524</u>	<u>302,059</u>	<u>(10,179)</u>	<u>33,757,404</u>
<i>Less: accumulated depreciation</i>				
Land improvements	(20,705)	(20,663)	-	(41,368)
Buildings and improvements	(5,132,466)	(708,267)	-	(5,840,733)
Furniture and equipment	(758,317)	(136,722)	10,179	(884,860)
Vehicles	<u>(1,241,859)</u>	<u>(97,748)</u>	<u>-</u>	<u>(1,339,607)</u>
Total accumulated depreciation	<u>(7,153,347)</u>	<u>(963,400)</u>	<u>10,179</u>	<u>(8,106,568)</u>
Governmental activities capital assets, net	<u>\$ 26,450,092</u>	<u>\$ (661,341)</u>	<u>\$ -</u>	<u>\$ 25,788,751</u>

Depreciation expense was charged to governmental functions as follows:

<u>Instruction:</u>	
Regular	\$ 593,875
Special	13,062
Vocational	3,621
<u>Support services:</u>	
Pupil	7,603
Instructional staff	31,179
Administration	20,591
Fiscal	756
Operations and maintenance	43,128
Pupil transportation	125,955
Central	2,529
Extracurricular activities	44,513
Non-instructional	938
Food service operations	<u>75,650</u>
Total depreciation expense	<u>\$ 963,400</u>

**NORTHWEST LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(CONTINUED)

NOTE 9 - 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. Lease payments have been reclassified and are reflected as debt service expenditures in the financial statements for the governmental funds. These expenditures are reported as function expenditures on the budgetary statements.

Capital assets consisting of buildings have been capitalized in the amount of \$1,300,000. Accumulated depreciation as of June 30, 2009 was \$62,293, leaving a current book value of \$1,237,707. A corresponding liability is recorded in the government-wide financial statements. Principal and interest and fiscal charges payments in fiscal year 2009 totaled \$39,000 and \$64,276, 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, 2009.

Fiscal Year Ending <u>June 30,</u>	<u>Amount</u>
2010	\$ 103,296
2011	103,217
2012	104,014
2013	103,688
2014	103,262
2015 - 2019	520,102
2020 - 2024	519,288
2025 - 2028	<u>417,686</u>
Total	1,974,553
Less: amount representing interest	<u>(695,553)</u>
Present value of minimum lease payments	<u>\$ 1,279,000</u>

**NORTHWEST LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(CONTINUED)

NOTE 10 - LONG-TERM OBLIGATIONS

- A. During the fiscal year 2009, the following changes occurred in governmental activities long-term obligations:

	Balance Outstanding <u>6/30/08</u>	<u>Additions</u>	<u>Deletions</u>	Balance Outstanding <u>6/30/09</u>	Amount Due in <u>One Year</u>
<u>General Obligation Bonds:</u>					
Series 2002, Improvement Current Interest Bonds 12/01/29 maturity	\$ 20,300,000	\$ -	\$ -	\$ 20,300,000	\$ 630,000
Series 2002, Improvement Capital Appreciation Bonds 11.372% (average effective) 12/01/06 to 12/01/08 maturity	318,018	-	(318,018)	-	-
Series 2002, Improvement Capital Appreciation Bonds Accreted interest	<u>278,105</u>	<u>33,877</u>	<u>(311,982)</u>	-	-
Total general obligation bonds	<u>20,896,123</u>	<u>33,877</u>	<u>(630,000)</u>	<u>20,300,000</u>	<u>630,000</u>
<u>Other Obligations:</u>					
Lease-purchase obligation	1,318,000	-	(39,000)	1,279,000	41,000
Compensated absences	<u>1,683,538</u>	<u>135,454</u>	<u>(285,000)</u>	<u>1,533,992</u>	<u>68,601</u>
Total other obligations	<u>3,001,538</u>	<u>135,454</u>	<u>(324,000)</u>	<u>2,812,992</u>	<u>109,601</u>
Total all governmental activities long-term liabilities	<u>\$ 23,897,661</u>	<u>\$ 169,331</u>	<u>\$ (954,000)</u>	23,112,992	<u>\$ 739,601</u>
Add: Unamortized premium on bond issuance				<u>395,094</u>	
Total reported on the statement of net assets				<u>\$ 23,508,086</u>	

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

The lease-purchase obligation will be paid from the permanent improvement fund. See Note 9 for more detail.

Series 2002 School Improvement General Obligation Bonds

During fiscal 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 7.0 mil bonded debt tax levy.

**NORTHWEST LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(CONTINUED)

NOTE 10 - LONG-TERM OBLIGATIONS - (Continued)

The Series 2002 school improvement general obligation bond issue is comprised of both current interest serial and term bonds, par value \$21,930,000, and capital appreciation bonds, par value \$1,069,986. The capital appreciation bonds matured on each December 1, 2006 through 2008 (stated interest 11.372%) 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 was \$1,260,000. The current interest bonds maturing on or after December 1, 2012 are subject to early redemption at the sole option of the District, at the following redemption prices, plus accrued interest:

<u>Redemption Dates</u>	<u>Redemption Price</u>
December 1, 2012 and thereafter	100% of par

Mandatory sinking fund requirements for the current interest term bonds occur on December 1, 2020 and 2021 and on December 1, in each of the years 2023 through 2028. 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.

- B.** Principal and interest requirements to retire the general obligation bonds outstanding at June 30, 2009 are as follows:

<u>Fiscal Year</u> <u>Ending June 30</u>	<u>Current Interest</u> <u>General Obligation Bonds</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 630,000	\$ 889,165	\$ 1,519,165
2011	655,000	865,757	1,520,757
2012	675,000	843,475	1,518,475
2013	700,000	819,750	1,519,750
2014	725,000	794,269	1,519,269
2015 - 2019	4,050,000	3,513,680	7,563,680
2020 - 2024	5,035,000	2,497,824	7,532,824
2025 - 2029	6,370,000	1,130,975	7,500,975
2030	<u>1,460,000</u>	<u>34,675</u>	<u>1,494,675</u>
Total	<u>\$ 20,300,000</u>	<u>\$ 11,389,570</u>	<u>\$ 31,689,570</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, 2009, are a voted debt margin of \$5,297,628 (including available funds of \$1,208,283) and an unvoted debt margin of \$270,993.

**NORTHWEST LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(CONTINUED)

NOTE 11 - 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 twenty days of vacation per fiscal year, depending upon length of service. Accumulated, unused vacation time is paid to classified employees and administrators upon termination of employment. Teachers do not earn vacation time. Teachers, administrators, and classified employees earn sick leave at the rate of one and one-fourth days per month. 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.

NOTE 12 - 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 2009, 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 the 95% of the cost of a monthly premium for certified and classified employees. For fiscal year 2009, the District cost paid for premium for medical and dental was \$1,035.08 for family coverage and \$426.09 for single coverage, per month for all 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.

**NORTHWEST LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(CONTINUED)

NOTE 12 - RISK MANAGEMENT - (Continued)

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 performances 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 Comp Management, Inc. provides administrative, cost control and actuarial services to the GRP.

NOTE 13 - 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 and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746. It is also posted on the SERS' Ohio website, www.ohsers.org, under *Forms and Publications*.

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 2009, 9.09 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2009, 2008 and 2007 were \$224,946, \$237,555 and \$255,140, respectively; 44.03 percent has been contributed for fiscal year 2009 and 100 percent for fiscal years 2008 and 2007.

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.

**NORTHWEST LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(CONTINUED)

NOTE 13 - PENSION PLANS - (Continued)

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.

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 2009, 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, 2009, 2008 and 2007 were \$1,185,510, \$1,200,816 and \$1,259,728, respectively; 86.18 percent has been contributed for fiscal year 2009 and 100 percent for fiscal years 2008 and 2007. Contributions to the DC and Combined Plans for fiscal year 2009 were \$985 made by the District and \$22,998 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, 2009, certain members of the Board of Education have elected Social Security. The District's liability is 6.2 percent of wages paid.

**NORTHWEST LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(CONTINUED)

NOTE 14 - 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 and traditional indemnity plans as well as a prescription drug program. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries up to a statutory limit. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746.

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 2009, 4.16 percent of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined amount; for 2009, the actuarially determined amount was \$35,800.

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

The District's contributions for health care (including surcharge) for the fiscal years ended June 30, 2009, 2008, and 2007 were \$154,664, \$158,791 and \$135,254, respectively; 44.03 percent has been contributed for fiscal year 2009 and 100 percent for fiscal years 2008 and 2007.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2009, 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, 2009, 2008, and 2007 were \$18,560, \$17,116 and \$17,349, respectively; 44.03 percent has been contributed for fiscal year 2009 and 100 percent for fiscal years 2008 and 2007.

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 or by calling (888) 227-7877.

**NORTHWEST LOCAL SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
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(CONTINUED)**

NOTE 14 - POSTEMPLOYMENT BENEFITS - (Continued)

Funding Policy - Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2009, 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, 2009, 2008, and 2007 were \$91,193, \$92,370 and \$96,902, respectively; 86.18 percent has been contributed for fiscal year 2009 and 100 percent for fiscal years 2008 and 2007.

NOTE 15 - 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 revenues, 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); and,
- (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 a reservation of fund balance for that portion of outstanding encumbrances not already recognized as an account payable (GAAP 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	\$ (442,373)
Net adjustment for revenue accruals	31,966
Net adjustment for expenditure accruals	229,311
Adjustment for encumbrances	<u>191,217</u>
GAAP basis	<u>\$ 10,121</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(CONTINUED)

NOTE 16 - CONTINGENCIES

A. Grants

The District receives significant financial assistance from numerous federal, State and local agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the District. However, in the opinion of management, any such disallowed claims will not have a material effect on the financial position of the District.

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 17 - STATUTORY RESERVES

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

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

	Textbooks/ Instructional <u>Materials</u>	Capital <u>Acquisition</u>
Set-aside cash balance as of June 30, 2008	\$ 105,250	\$ (20,743,472)
Current year set-aside requirement	-	388,115
Current year offsets	-	(154,641)
Qualifying disbursements	<u>-</u>	<u>(151,319)</u>
Total	<u>\$ 105,250</u>	<u>\$ (20,661,317)</u>
Balance carried forward to fiscal year 2010	<u>\$ 105,250</u>	<u>\$ (20,661,317)</u>

The District had qualifying disbursements during the year that reduced the set-aside amount below zero for the capital acquisition reserves; this extra amount may be used to reduce the set-aside requirements for future years. The negative amount is therefore presented as being carried forward to next fiscal year.

The current year set aside normally required for textbooks and instructional materials was not necessary as the District obtained proper legal approval from the Superintendent of Public Instruction and by a unanimous vote of the Board of Education to appropriate the funds for other purposes.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(CONTINUED)**

NOTE 17 - STATUTORY RESERVES - (Continued)

A schedule of the restricted assets at June 30, 2009 follows:

Textbooks/instructional materials	\$ 105,250
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NOTE 18 - FISCAL CAUTION

On July 14, 2008, the District was declared to be in fiscal caution by the Auditor of State. There are several conditions which determine whether a District should be declared in fiscal caution, among which include the failure to pass a levy to eliminate the operating deficit in the succeeding year. The District is currently working with the State to meet criteria for terminating the fiscal caution status.

NOTE 19 - SIGNIFICANT SUBSEQUENT EVENTS

On August 3, 2009, the District entered into an agreement with the Ohio School Facilities Commission (OSFC) for the construction of new classroom facilities. The District has been awarded a grant from OSFC for approximately \$29,000,000. Also on August 3, the District entered into a lease-purchase agreement with the Ohio Association of School Business Officials and the Columbus Regional Airport Authority in the amount of \$1,630,000 related to the financing of the construction project noted above.

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NORTHWEST LOCAL SCHOOL DISTRICT
STARK COUNTY

FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2009

Federal Grantor/ Pass Through Grantor/ Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Expenditures	Non-Cash Expenditures
U.S. DEPARTMENT OF AGRICULTURE						
<i>Passed Through the Ohio Department of Education:</i>						
Child Nutrition Cluster: National School Lunch Program	N/A	10.555	<u>\$207,042</u>	<u>\$37,643</u>	<u>\$207,042</u>	<u>\$37,643</u>
Total U.S. Department of Agriculture			207,042	37,643	207,042	37,643
U.S. DEPARTMENT OF EDUCATION						
<i>Passed Through the Ohio Department of Education:</i>						
Special Education Cluster Special Education - Grants to States	049908-3M20-2009	84.027	437,318		440,618	
Title I Grants to Local Educational Agencies	049908-3M00-2009	84.010	185,492		187,599	
Safe and Drug-Free Schools and Communities-State Grants	049908-3D10-2009	84.186	5,788		7,493	
State Grants for Innovative Programs	049908-3M10-2009	84.298	2,148		6,714	
Education Technology State Grants	049908-3S20-2009	84.318	363		1,529	
Improving Teacher Quality State Grants	049908-3Y60-2009	84.367	<u>84,244</u>		<u>65,734</u>	
Total U.S. Department of Education			<u>715,353</u>		<u>709,687</u>	
Totals			<u>\$922,395</u>	<u>\$37,643</u>	<u>\$916,729</u>	<u>\$37,643</u>

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, 2009**

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 expenditures. 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

Program regulations do not require the District to maintain separate inventory records for purchased food versus food commodities it receives from the U.S. Department of Agriculture. The District reports commodities consumed on the Schedule at the entitlement value.



Mary Taylor, CPA

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
8614 Erie Avenue NW
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, 2009, which collectively comprise the District's basic financial statements and have issued our report thereon dated January 14, 2010, wherein we noted the District restated net assets/capital assets. 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 expressing our opinion on the financial statements, but not to opine 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.

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the District's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

We consider finding 2009-004 described in the accompanying Schedule of Findings to be a significant deficiency in internal control over financial reporting.

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A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the District's internal control will not prevent or detect a material financial statement misstatement.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and accordingly, would not necessarily disclose all significant deficiencies that are also material weaknesses. We believe the significant deficiency described above is a material weakness.

We also noted certain internal control matters that we reported to the District's management in a separate letter dated January 14, 2010.

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 instances of noncompliance or other matter that we must report under *Government Auditing Standards* which are described in the accompanying Schedule of Findings as items 2009-001, 2009-002 and 2009-003.

We also noted certain noncompliance or other matters not requiring inclusion in this report that we reported to the District's management in a separate letter dated January 14, 2010.

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

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



Mary Taylor, CPA
Auditor of State

January 14, 2010



Mary Taylor, CPA

Auditor of State

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

Northwest Local School District
Stark County
8614 Erie Avenue N.W.
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 apply to each of its major federal program for the year ended June 30, 2009. The summary of auditor's results section of the accompanying Schedule of Findings identifies the District's major federal program. 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 express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to reasonably assure whether noncompliance occurred with the types of 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 those requirements and performing other procedures we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the District's compliance with those requirements.

In our opinion, the Northwest Local School District, complied, in all material respects, with the requirements referred to above that apply to its major federal program for the year ended June 30, 2009.

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 in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

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

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

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

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

A handwritten signature in black ink that reads "Mary Taylor". The signature is written in a cursive, flowing style.

Mary Taylor, CPA
Auditor of State

January 14, 2010

**NORTHWEST LOCAL SCHOOL DISTRICT
STARK COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2009**

1. SUMMARY OF AUDITOR'S RESULTS

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unqualified
<i>(d)(1)(ii)</i>	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	Yes
<i>(d)(1)(ii)</i>	Were there any other significant deficiencies in internal control reported at the financial statement level (GAGAS)?	Yes
<i>(d)(1)(iii)</i>	Was there any reported material noncompliance at the financial statement level (GAGAS)?	Yes
<i>(d)(1)(iv)</i>	Were there any material internal control weaknesses reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any other significant deficiencies in internal control reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unqualified
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510?	No
<i>(d)(1)(vii)</i>	Major Programs (list):	Special Education - Grants to States Program, CFDA #84.027 and Improving Teacher Quality State Grants, CFDA #84.367.
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A\B Programs	Type A: > \$ 300,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	No

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

FINDING NUMBER 2009-001

Material Noncompliance

Ohio Rev. Code Section 5705.41(D) requires that no subdivision or taxing unit shall make any contract or give any order involving the expenditure of money unless there is attached thereto a certificate of the fiscal officer of the subdivision that the amount required to meet the obligation has been lawfully appropriated for such purpose and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrances. This certificate need be signed only by the subdivision's fiscal officer. Every contract made without such a certificate shall be void, and no warrant shall be issued in payment of any amount due thereon.

FINDING NUMBER 2009-001 (Continued)

There are several exceptions to the standard requirement stated above that a fiscal officer's certificate must be obtained prior to a subdivision or taxing authority entering into a contract or order involving the expenditure of money. The main exceptions are: "then and now" certificates, blanket certificates, and super blanket certificates, which are provided for in sections 5705.41(D)(1) and 5705.41(D)(3), respectively, of the Ohio Revised Code.

1. **"Then and Now" Certificate** – If the fiscal officer can certify that both at the time that the contract or order was made ("then"), and at the time that the fiscal officer is completing the certification ("now"), that sufficient funds were available or in the process of collection to the credit of a proper fund, properly appropriated and free from a previous encumbrance, they can authorize the drawing of a warrant for the payment of the amount due. The District has thirty days from the receipt of the "then and now" certificate to approve payment by ordinance or resolution.

Amounts of less than \$3,000 may be paid by the fiscal officer without a resolution or ordinance upon completion of the "then and now" certificate, provided that the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirement for approval of expenditures by the District's.

2. **Blanket Certificate** – Fiscal officers may prepare "blanket" certificates for a certain sum of money not in excess of an amount established by resolution or ordinance adopted by a majority of the members of the legislative authority against any specific line item account over a period not running beyond the end of the current fiscal year. The blanket certificates may, but need not, be limited to a specific vendor. Only one blanket certificate may be outstanding at one particular time for any one particular line item appropriation.
3. **Super Blanket Certificate** – The District may also make expenditures and contracts for any amount from a specific line item appropriation account in a specified fund upon certification of the fiscal officer for most professional services, fuel, oil, food items, and any other specific recurring and reasonably predictable operating expense. This certification is not to extend beyond the current year. More than one super blanket certificate may be outstanding at a particular time for any line item appropriation.

One out of five (20%) non-payroll expenditure subjected to detailed testing had the purchase order dated after the invoice date without a "Then and Now" Certificate. Therefore, the expenditure is in violation of ORC 5705.41(D).

Three out of 56 (12%) non-payroll expenditures tested had original purchase orders for an insufficient amount. For one of the purchase orders, the original purchase order was ~\$55 less than the invoice amount, the second purchase order was ~\$350 less than the invoice amount, and the third purchase order was ~\$2,860 less than the invoice amount. Although the original purchase order amounts were encumbered prior to the invoice, the amended purchase orders were not recertified (encumbered) per **Ohio Rev. Code Section 5705.41(D)** which requires all expenditures to be encumbered prior to payment.

The District should implement the use of so called Then and Now Certificates and Blanket Certificates as further permitted by Ohio Rev. Code Section 5705.41. However, such certifications should only be used for recurring and reasonably predictable matters or emergency matters which arise from time to time.

FINDING NUMBER 2009-001 (Continued)

Unless the exceptions noted above are used, prior certification is not only required by statute but is a key control in the disbursement process to assure that purchase commitments receive prior approval. To improve controls over disbursements and to help reduce the possibility of the District's funds exceeding budgetary spending limitations, the Treasurer should certify that funds are or will be available prior to obligation by the District. When prior certification is not possible, "then and now" certification should be used.

The District should certify purchases to which section 5705.41(D) applies. The most convenient certification method is to use purchase orders that include the certification language 5705.41(D) requires to authorize disbursements. The Treasurer should sign the certification at the time the District incurs a commitment, and only when the requirements of 5705.41(D) are satisfied. The Treasurer should post approved purchase commitments to the proper appropriation code, to reduce the available appropriation.

Officials' Response: This finding has to do with the standard requirement that a fiscal officer's certificate must be obtained prior to entering into a contract or order involving the expenditure of money. I have reviewed the main exceptions that are available to use to avoid this from happening. Upon review of the occurrence that was sighted in the report I found the new purchase order was processed in the manner that we understood we should follow by the previous audit staff. The statement that this was a new super purchase order in support of the original one was highlighted to bring attention to the extension of the first purchase order. We have discussed in great detail how to eliminate these occurrences but we would like to understand what are universally accepted practices.

FINDING NUMBER 2009-002

Material Noncompliance

Ohio Rev. Code Section 5705.39 requires that total appropriations from each fund not exceed total estimated resources from each fund. General Fund final appropriations plus prior year encumbrances exceeded final estimated resources plus prior year fund balance by \$1,160,382.

The Treasurer and Board of Education should monitor appropriations versus estimated resources to help avoid the potential of overspending.

Officials' Response: This finding reflects the situation where total appropriations exceeded the total estimated resources from a fund. To prevent this situation from occurring I have established additional monthly reviews of all funds for appropriations, revenues, outstanding encumbrances, current revenue and expense activity against budget, and cash balances. These additional reviews are to be done before the month is closed and reports printed.

FINDING NUMBER 2009-003

Material Noncompliance

Ohio Rev. Code Section 5705.10 states that money that is paid into a fund must be used only for the purposes for which such fund has been established.

FINDING NUMBER 2009-003 (continued)

The District's monthly Statement of Cash Position reflected negative fund balances in several of the District's funds during the months of October 2008, January 2009, April 2009, and June 2009, including the General Fund (001), Building Fund (004), Cafeteria Fund (006), and Management Information Systems Fund (432) ranging from (\$612) to (\$1,248,950). The negative fund balances indicates money from one fund was used to cover the expenses of another fund and increases the possibility that a lack of monitoring controls exists. Fund activity should be monitored to prevent future expenditures in excess of available resources. In those cases where additional funds are required, the resources should either be transferred or advanced to the fund in accordance with the Ohio Revised Code. This will help ensure money is only used for the purposes for which each fund was established.

Officials' Response: Finding 003 states that cash from individual funds is being used for purposes other than what the fund was established for. The monitoring has been adjusted and intensified to eliminate this occurrence from happening.

FINDING NUMBER 2009-004

Material Weakness

Capital Assets

The following items were identified during Capital Asset testing:

- Due to a lack of communication between the District and the Generally Accepted Accounting Principles (GAAP) Converter, various non-capital assets were capitalized as Equipment and Furniture in a prior period resulting in overstatements of \$713,504 within the Equipment and Furniture Beginning Balance; \$659,825 within the Equipment and Furniture Accumulated Depreciation Beginning Balance; and \$7,904 within the Equipment and Furniture Depreciation Expense. As a result, the capital assets at year-end were overstated by \$61,583.
- A \$6,200 capital asset was improperly deleted by the GAAP Converters. As a result, the Equipment and Furniture Capital Assets and the Equipment and Furniture Accumulated Depreciation were understated.
- The District reclassified a \$4,777 fully depreciated capital asset (fence) from the Buildings and Building Improvements capital asset account to the Land Improvements account within the District's fixed asset system (EIS 103 Report); however, due to the lack of communication between the District and the Converters this reclassification was not accounted for during the compilation of the Capital Asset Schedule.
- The Buildings and Building Improvements Beginning Balance exceeded the fixed asset system by \$7,070 with no explanation for the difference.
- The District did not capitalize the total value of the football stadium bleacher expansion in 2005 instead the District increased the value of the asset each year by that year's promissory note payment. As a result, the capital asset was understated by \$7,289.
- 12 out of 25 (48%) assets tested have useful lives that do not agree with the useful lives established by the Capital Assets Policy.
- Five capital assets were not depreciated resulting in the understatement of Accumulated Depreciation as of June 30, 2009 of \$73,039 which was caused by two of the assets having a useful life of zero within the capital asset system and three of the assets being miscalculated within the capital asset system that were fully depreciated prior to improvements to the asset. Additionally, one out of 25 (4%) capital assets tested was over depreciated in the current year by \$178.

FINDING NUMBER 2009-004 (Continued)

- Depreciation for the football stadium bleachers expansion was charged to the Regular Instruction governmental function instead of the Extracurricular Activities governmental function.
- Seventy capital assets that are fully depreciated are still in use.

To help improve the accountability and reporting of the capital assets, the District should:

- Enhance their communications with the GAAP Converters in order to ensure the proper fixed asset system reports are used by the GAAP Converter and to avoid improperly capitalizing fixed assets that should not be capitalized.
- Ensure the GAAP Converters delete capital assets and not the non-capitalized fixed assets.
- Ensure the GAAP Converter is aware of any adjustment posted to the fixed asset system such as reclassification of capital assets.
- Ensure the fixed asset system agrees to the audited financial report. The District should investigate any variances in order to identify any assets that need to be added to or deleted from the fixed asset system.
- Fully capitalize assets at the total asset value upon acquisition regardless of the financing of any related debt.
- Review the Capital Asset Policy to ensure the useful lives approved by the Board agree with the useful lives used. If necessary, the District should update the Capital Asset Policy to appropriately reflect the asset lives used in the calculation of the depreciation.
- Review the fixed asset system reports to ensure all capital assets are properly depreciated. For any assets not properly depreciated, the District should make the appropriate modifications such as assigning a useful life other than zero, reclassifying the expenditure function used for depreciation expense and/or maintain documentation for any changes to existing capital assets in order to ensure complete and accurate capital asset records.
- Ensure depreciation expenses are charged to the proper governmental function.
- Review the useful lives of capital assets to ensure the assigned useful life reflects the actual length of time the District intends to use the asset. If necessary, the District should amend the useful life of existing capital assets to accurately reflect the length of time the District intends to use a capital asset and update the District's capital asset policy to reflect the change in estimated useful lives.

The financial statements and notes and, where applicable, the District's capital assets system were adjusted to properly report the above.

Officials' Response: Finding 004 resulted partially from the disparity in capital asset reporting between Northwest Local and our GAAP converter and also from varying methods of capital asset management. We have taken the recommendation of this audit to increase our communication with the GAAP converters in regards to the useful life of assets, depreciation, classification, any discrepancies, and dispositions. We will contact them throughout the year to determine the best practices to follow for any problematic circumstances. Reports will also have an enhanced review not only for correct asset totals but also correct depreciation amounts.

3. FINDINGS FOR FEDERAL AWARDS

None.

**NORTHWEST LOCAL SCHOOL DISTRICT
STARK COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
OMB CIRCULAR A -133 § .315 (b)
JUNE 30, 2009**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain
2008-001	Ohio Rev. Code 5705.41(D) – Three of 25 (12%) expenditures tested were not certified by the Treasurer prior to incurring the obligation.	No	Not Corrected – See Finding 2009-001.
2008-002	Posting Estimated Resources and Appropriations to Accounting System – Estimated revenues posted to the District’s computerized budgetary reports did not always agree to the District’s Amended Certificate of Estimated Resources. Additionally, appropriations posted to the District’s computerized budgetary reports did not always agree to the District’s Annual Appropriation Measure plus appropriation amendments.	No	Partially Corrected – See Finding 2009-004.
2008-003	Capital Assets - The District did not post the fiscal year 2007 audit adjustments to record the construction of the sports field’s water well and the waterlines connecting the new high school to the City’s water supply in the School Asset Account System/Equipment Inventory Subsystem (SAAS/EIS). Additionally, the acquisition cost of the District’s new high school building was understated by in SAAS/EIS system. As a result, the District’s SAAS/EIS system reports were understated and did not agree to the capital asset activity footnote.	No	Partially Corrected – See Finding 2009-005.



Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING AGREED-UPON PROCEDURES

Northwest Local School District
Stark County
8614 Erie Avenue NW
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 procedures enumerated below, which were agreed to by the Board, solely to assist the Board in evaluating whether Northwest Local School District (the District) has adopted an anti-harassment policy in accordance with Ohio Rev. Code Section 3313.666. Management is responsible for complying with this requirement. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the Board. Consequently; we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

1. We noted the Board adopted an anti-harassment policy at its meeting on January 3, 2008.
2. We read the policy, noting it included the following requirements from Ohio Rev. Code Section 3313.666(B):
 - (1) A statement prohibiting harassment, intimidation, or bullying of any student on school property or at school-sponsored events;
 - (2) A definition of harassment, intimidation, or bullying that includes the definition in division (A) of Ohio Rev. Code Section 3313.666;
 - (3) A procedure for reporting prohibited incidents;
 - (4) A requirement that school personnel report prohibited incidents of which they are aware to the school principal or other administrator designated by the principal;
 - (5) A requirement that parents or guardians of any student involved in a prohibited incident be notified and, to the extent permitted by section 3319.321 of the Revised Code and the "Family Educational Rights and Privacy Act of 1974," 88 Stat. 571, 20 U.S.C. 1232q, as amended, have access to any written reports pertaining to the prohibited incident;

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- (6) A procedure for documenting any prohibited incident that is reported;
- (7) A procedure for responding to and investigating any reported incident;
- (8) A strategy for protecting a victim from additional harassment, intimidation, or bullying, and from retaliation following a report;
- (9) A disciplinary procedure for any student guilty of harassment, intimidation, or bullying, which shall not infringe on any student's rights under the first amendment to the Constitution of the United States;
- (10) A requirement that the district administration semiannually provide the president of the district board a written summary of all reported incidents and post the summary on its web site, if the district has a web site, to the extent permitted by section 3319.321 of the Revised Code and the "Family Educational Rights and Privacy Act of 1974," 88 Stat. 571, 20 U.S.C. 1232q, as amended.

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.



Mary Taylor, CPA
Auditor of State

January 14, 2010



Mary Taylor, CPA
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 18, 2010