



Rea & associates *a brighter way*

Northwestern Local School District

Wayne County, Ohio

Audited Financial Statements

For the Fiscal Year Ended
June 30, 2013



Dave Yost • Auditor of State

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

We have reviewed the *Independent Auditor's Report* of the Northwestern Local School District, Wayne County, prepared by Rea & Associates, Inc., for the audit period July 1, 2012 through June 30, 2013. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

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

Dave Yost
Auditor of State

October 7, 2013

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

JUNE 30, 2013

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August 30, 2013

To Board of Education and Management
Northwestern Local School District
Wayne County, Ohio
7571 N. Elyria Road
West Salem, OH 44287

Independent Auditor's Report

Report on the Financial Statements

We have audited the accompanying financial statements and related notes of Northwestern Local School District, Wayne County, Ohio (the District) as of and for the year ended June 30, 2013, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with the accounting principles generally accepted in the United States of America. This responsibility includes the designing, implementing and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the District's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note 1 of the financial statements, the District prepared these financial statements using the cash accounting basis. However, Ohio Administrative Code Section 117-2-03 requires these statements to follow accounting principles generally accepted in the United States of America. The effects on the financial statements of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumably material.

Opinion

In our opinion, because of the matter described in the *Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles* paragraph, the financial statements do not present fairly the financial position, results of operations, and cash flows, where applicable, of Northwestern Local School District, Wayne County, Ohio as of and for the year ended June 30, 2013, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Supplementary Information

Our audit was conducted to opine on the District's basic financial statements taken as a whole. The Schedule of Expenditures of Federal Awards presents additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and is not a required part of the financial statements.

The schedule is management's responsibility, and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. We subjected the schedule to the auditing procedures we applied to the financial statements. We also applied certain additional procedures, including comparing and reconciling this information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. For the reason stated in the *Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles* paragraph, the financial statements do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the District, as of June 30, 2013, or its changes in financial position or its cash flows for the year then ended. Therefore we are unable to express, and we do not express, an opinion on the Schedule of Expenditures of Federal Awards.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 30, 2013, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Kea & Associates, Inc.

Medina, Ohio

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Northwestern Local School District
Wayne County, Ohio
Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances
All Governmental Fund Types
For the Year Ended June 30, 2013

| | Governmental Fund Types | | | | Total (Memorandum Only) |
|---|--------------------------------|----------------------------|-------------------------|-----------------------------|--|
| | General | Special Revenue | Debt Service | Capital Projects | |
| CASH RECEIPTS: | | | | | |
| Taxes | \$ 4,110,735 | \$ 42,856 | \$ 624,535 | \$ 180,173 | \$ 4,958,299 |
| Intergovernmental | 7,093,026 | 635,669 | 111,496 | 37,792 | 7,877,983 |
| Investment Income | 3,548 | 108 | 2,051 | 222 | 5,929 |
| Tuition and Fees | 1,010,442 | 0 | 0 | 0 | 1,010,442 |
| Extracurricular Activities | 123,876 | 189,290 | 0 | 0 | 313,166 |
| Rentals | 4,350 | 0 | 0 | 0 | 4,350 |
| Gifts and Contributions | 0 | 950 | 0 | 29,450 | 30,400 |
| Miscellaneous | 57,316 | 12,988 | 0 | 32,065 | 102,369 |
| Total Cash Receipts | <u>12,403,293</u> | <u>881,861</u> | <u>738,082</u> | <u>279,702</u> | <u>14,302,938</u> |
| CASH DISBURSEMENTS: | | | | | |
| Instruction: | | | | | |
| Regular | 5,621,366 | 22,537 | 0 | 0 | 5,643,903 |
| Special | 949,849 | 455,752 | 0 | 0 | 1,405,601 |
| Vocational | 569,838 | 0 | 0 | 0 | 569,838 |
| Student Intervention Services | 63,508 | 0 | 0 | 0 | 63,508 |
| Other | 401,276 | 0 | 0 | 0 | 401,276 |
| Support Services: | | | | | |
| Pupils | 553,186 | 0 | 0 | 0 | 553,186 |
| Instructional Staff | 623,394 | 113,397 | 0 | 0 | 736,791 |
| Board of Education | 68,753 | 0 | 0 | 0 | 68,753 |
| Administration | 951,108 | 23,680 | 0 | 0 | 974,788 |
| Fiscal | 301,551 | 15,786 | 13,450 | 3,935 | 334,722 |
| Operation and Maintenance of Plant | 1,304,259 | 93,278 | 0 | 0 | 1,397,537 |
| Pupil Transportation | 977,438 | 0 | 0 | 0 | 977,438 |
| Central | 38,051 | 15,993 | 0 | 0 | 54,044 |
| Extracurricular Activities | 347,405 | 186,057 | 0 | 0 | 533,462 |
| Capital Outlay | 0 | 0 | 0 | 574,215 | 574,215 |
| Debt Service: | | | | | |
| Principal Retirement | 0 | 0 | 585,000 | 0 | 585,000 |
| Interest and Fiscal Charges | 0 | 0 | 195,672 | 0 | 195,672 |
| Total Cash Disbursements | <u>12,770,982</u> | <u>926,480</u> | <u>794,122</u> | <u>578,150</u> | <u>15,069,734</u> |
| Cash Receipts Over/(Under) Cash Disbursements | (367,689) | (44,619) | (56,040) | (298,448) | (766,796) |
| OTHER FINANCING SOURCES (USES): | | | | | |
| Proceeds from Notes | 0 | 0 | 0 | 339,848 | 339,848 |
| Operating Transfers In | 0 | 42,550 | 0 | 5,000 | 47,550 |
| Operating Transfers Out | (47,550) | 0 | 0 | 0 | (47,550) |
| Total Other Financing Sources (Uses) | <u>(47,550)</u> | <u>42,550</u> | <u>0</u> | <u>344,848</u> | <u>339,848</u> |
| Excess of Cash Receipts and Other Financing Sources Over/(Under) Cash Disbursements and Other Financing Uses | (415,239) | (2,069) | (56,040) | 46,400 | (426,948) |
| Fund Cash Balances, July 1, 2012 | <u>3,052,013</u> | <u>157,807</u> | <u>1,795,185</u> | <u>81,932</u> | <u>5,086,937</u> |
| Fund Cash Balances, June 30, 2013: | | | | | |
| Restricted | 0 | 155,738 | 1,739,145 | 128,332 | 2,023,215 |
| Assigned | 1,083,291 | 0 | 0 | 0 | 1,083,291 |
| Unassigned | 1,553,483 | 0 | 0 | 0 | 1,553,483 |
| Total Fund Cash Balances, June 30, 2013: | <u>\$ 2,636,774</u> | <u>\$ 155,738</u> | <u>\$ 1,739,145</u> | <u>\$ 128,332</u> | <u>\$ 4,659,989</u> |

See accompanying notes to the financial statements.

Northwestern Local School District
Wayne County, Ohio
Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances
All Proprietary Fund Types and Similar Fiduciary Funds
For the Year Ended June 30, 2013

| | Proprietary Fund Types | | Fiduciary Fund Type | | Total (Memorandum Only) |
|--|------------------------|---------------------|-------------------------|------------------|-------------------------------|
| | Enterprise | Internal Service | Non Expendable Trust | Agency | |
| OPERATING CASH RECEIPTS: | | | | | |
| Food Services | \$ 257,851 | \$ 0 | \$ 0 | \$ 0 | \$ 257,851 |
| Charges for Services | 0 | 123,502 | 0 | 0 | 123,502 |
| Investment Income | 0 | 0 | 149 | 30 | 179 |
| Other Operating Revenues | 0 | 0 | 2,675 | 108,826 | 111,501 |
| Total Operating Cash Receipts | <u>257,851</u> | <u>123,502</u> | <u>2,824</u> | <u>108,856</u> | <u>493,033</u> |
| OPERATING CASH DISBURSEMENTS: | | | | | |
| Salaries | 198,167 | 0 | 0 | 0 | 198,167 |
| Fringe Benefits | 145,337 | 0 | 0 | 0 | 145,337 |
| Purchased Services | 12,542 | 122,321 | 0 | 0 | 134,863 |
| Materials and Supplies | 222,606 | 0 | 0 | 0 | 222,606 |
| Other Operating Expenses | 0 | 0 | 3,000 | 95,086 | 98,086 |
| Total Operating Cash Disbursements | <u>578,652</u> | <u>122,321</u> | <u>3,000</u> | <u>95,086</u> | <u>799,059</u> |
| Operating Income (Loss) | <u>(320,801)</u> | <u>1,181</u> | <u>(176)</u> | <u>13,770</u> | <u>(306,026)</u> |
| NON OPERATING CASH RECEIPTS/(DISBURSEMENTS) | | | | | |
| Federal and State Subsidies | 313,484 | 0 | 0 | 0 | 313,484 |
| Interest | 94 | 32 | 0 | 0 | 126 |
| Total Non Operating Cash Receipts/(Disbursements) | <u>313,578</u> | <u>32</u> | <u>0</u> | <u>0</u> | <u>313,610</u> |
| Excess of Operating and Non Operating Cash Receipts Over/(Under) Operating and Non Operating Cash Disbursements | <u>(7,223)</u> | <u>1,213</u> | <u>(176)</u> | <u>13,770</u> | <u>7,584</u> |
| Fund Cash Balances, July 1, 2012 | <u>124,514</u> | <u>25,252</u> | <u>139,651</u> | <u>36,485</u> | <u>325,902</u> |
| Fund Cash Balances, June 30, 2013 | <u>\$ 117,291</u> | <u>\$ 26,465</u> | <u>\$ 139,475</u> | <u>\$ 50,255</u> | <u>\$ 333,486</u> |

See accompanying notes to the financial statements.

Northwestern Local School District
Wayne County, Ohio
Notes to the Financial Statements
For the Year Ended June 30, 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

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

Average daily membership on, or as of, October 1, 2012 was 1,415. The District employs 109 certified and 63 non-certified employees. The District is supervised by the Tri-County Educational Service Center, a separate entity.

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

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

B. Basis of Accounting

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

C. Cash

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

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

The District also invests in STAR Plus, a federally insured cash account powered by the Federally Insured Cash Account (FICA) program. STAR Plus enables political subdivisions to generate a competitive yield on cash deposits in a network of carefully-selected FDIC-insured banks via a single, convenient account. STAR Plus offers attractive yields with no market or credit risk, weekly liquidity and penalty free withdrawals. All deposits with STAR Plus have full FDIC insurance, with no term commitment on deposits.

Northwestern Local School District
Wayne County, Ohio
Notes to the Financial Statements
For the Year Ended June 30, 2013

D. Fund Accounting

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

Governmental Funds

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

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

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

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

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

Title-I: Disadvantaged Children – This fund provides educational services to meet the special needs of educationally deprived children. Included are the Even Start and Comprehensive School Reform Programs.

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

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

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

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

Northwestern Local School District
Wayne County, Ohio
Notes to the Financial Statements
For the Year Ended June 30, 2013

Proprietary Funds

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

Food Service Fund - This fund assists the District in administering financial transactions related to food service operations.

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

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

Fiduciary Funds

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

Leo Welty Scholarship Fund - This fund accounts for scholarships.

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

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

E. Budgetary Basis

Tax Budget

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

Northwestern Local School District
Wayne County, Ohio
Notes to the Financial Statements
For the Year Ended June 30, 2013

Appropriations

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

Estimated Resources

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

Encumbrances

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

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

A summary of 2013 budgetary activity appears in Note 3.

F. Property, Plant and Equipment

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

G. Accumulated Leave

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

Northwestern Local School District
Wayne County, Ohio
Notes to the Financial Statements
For the Year Ended June 30, 2013

H. Total Columns on Financial Statements

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

I. Fund Balance

In accordance with Governmental Accounting Standards Board Statement No. 54, “*Fund Balance Reporting and Governmental Fund Type Definitions*”, the District classifies its fund balance based on the purpose for which the resources were received and the level of constraint placed on the resources. The classifications are as follows:

Nonspendable – The nonspendable fund balance category includes amounts that cannot be spent because they are not in spendable form, or legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash. It also includes the long-term amount of loans receivable, as well as property acquired for resale, unless the use of the proceeds from the collection of those receivables or from the sale of those properties is restricted, committed or assigned.

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

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

Assigned – Amounts in the assigned fund balance classification are intended to be used by the District for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the general fund, assigned amounts represent intended uses established by policies of the District. The Board of Education has by resolution authorized the Treasurer to assign fund balance. The Board of Education may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year’s appropriated budget.

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

Northwestern Local School District
Wayne County, Ohio
Notes to the Financial Statements
For the Year Ended June 30, 2013

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

2. CASH AND INVESTMENTS

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

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

STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on June 30, 2013.

Under existing Ohio statutes all investment earnings are assigned to the General Fund unless statutorily required to be credited to a specific fund. For the District, all investment earnings are receipts in the General Fund, School Support Fund, Maintenance Fund, Student Activities Fund, Extracurricular Activities Fund, Bond Retirement Fund, Permanent Improvement Fund, Food Service Fund, Dental Insurance Fund, and various trust funds, as authorized by board resolution. Interest income earned in fiscal year 2013 totaled \$6,234.

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

| | |
|--------------------------------|----------------------------|
| Demand Deposits | \$ 2,160,410 |
| STAR Ohio | 2,601,065 |
| Certificate of Deposits | <u>232,000</u> |
| Total Deposits and Investments | <u><u>\$ 4,993,475</u></u> |

At fiscal year-end, the carrying amount of the District deposits was \$2,392,410. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2013, \$156,922 of the District's bank balance of \$2,628,060 was exposed to custodial risk as discussed below, while \$2,471,138 was covered by Federal Deposit Insurance Corporation (FDIC), which includes \$2,000,138 held in a STAR Plus account.

Northwestern Local School District
Wayne County, Ohio
Notes to the Financial Statements
For the Year Ended June 30, 2013

STAR Ohio is an investment pool operated by the Ohio State Treasurer. It is unclassified since it is not evidenced by securities that exist in physical or book entry form. Ohio law requires STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service. The weighted average of maturity of the portfolio held by STAR Ohio as of June 30, 2013, is 57 days and carries a rating of AAAM by Standard and Poor's.

3. BUDGETARY ACTIVITY

Budgetary activity for the year ending June 30, 2013 is as follows:

| 2013 Budgeted vs Actual Receipts | | | |
|----------------------------------|---------------|---------------|------------|
| | Budget | Actual | |
| | Receipts | Receipts | Variance |
| General | \$ 12,280,970 | \$ 12,439,149 | \$ 158,179 |
| Special Revenue | 966,661 | 1,118,942 | 152,281 |
| Debt Service | 791,500 | 782,982 | (8,518) |
| Capital Projects | 236,500 | 579,319 | 342,819 |
| Enterprise | 664,150 | 571,431 | (92,719) |
| Internal Service | 125,800 | 123,535 | (2,265) |
| Private Purpose Trust | 5,248 | 3,362 | (1,886) |

| 2013 Appropriation vs Actual Budgetary Basis Expenditures | | | |
|---|---------------|---------------|------------|
| | Appropriation | Budgetary | |
| | Authority | Expenditures | Variance |
| General | \$ 13,226,057 | \$ 13,113,734 | \$ 112,323 |
| Special Revenue | 1,174,201 | 1,110,584 | 63,617 |
| Debt Service | 794,122 | 794,122 | 0 |
| Capital Projects | 597,131 | 597,131 | 0 |
| Enterprise | 661,680 | 591,605 | 70,075 |
| Internal Service | 130,000 | 122,321 | 7,679 |
| Private Purpose Trust | 10,450 | 3,966 | 6,484 |

Some funds are included in the general fund on the combined statement of cash receipts, cash disbursements, and changes in fund cash balances, but have legally adopted budgets.

4. 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 and public utility property located in the District. Real property tax revenue received in calendar year 2013 represents collections of calendar year 2012 taxes. Real property taxes received in calendar year 2013 were levied after April 1, 2012, on the assessed value listed as of January 1, 2012, the lien date. Assessed values for real property taxes are established by State law at 35% of appraised market value. Real property taxes are payable annually or semi-annually. 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.

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Public utility property tax revenue received in calendar 2013 represents collections of calendar year 2012 taxes. Public utility real and tangible personal property taxes received in calendar year 2013 became a lien December 31, 2011, were levied after April 1, 2012 and are collected in 2013 with real property taxes. Public utility real property is assessed at 35% of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

House Bill No. 66 was signed into law on June 30, 2005. House Bill No. 66 phased out the tax on tangible personal property of general businesses, telephone and telecommunications companies, and railroads. The tax on general business and railroad property was eliminated in calendar year 2009, and the tax on telephone and telecommunications property was eliminated in calendar year 2010. The tax was phased out by reducing the assessment rate on the property each year. The bill replaced the revenue lost by the District due to the phasing out of the tax. In calendar years 2006-2010, the District was fully reimbursed for the lost revenue. In calendar years 2011-2017, the reimbursements are being phased out. On June 30, 2011, House Bill No. 153 was signed into law, which further reduced the amounts of these reimbursements.

The District receives property taxes from Wayne and Ashland County. The County Auditor periodically advances to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2013, are available to finance fiscal year 2013 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

The assessed values upon which the fiscal year 2013 taxes were collected are:

| | 2012 Second Half Collections | | 2013 First Half Collections | |
|--|---------------------------------|----------------|--------------------------------|----------------|
| | Amount | Percent | Amount | Percent |
| Real Estate | \$ 135,965,810 | 97.43% | \$ 137,067,200 | 97.25% |
| Public Utility Personal Property | 3,585,350 | 2.57% | 3,874,530 | 2.75% |
| | <u>\$ 139,551,160</u> | <u>100.00%</u> | <u>\$ 140,941,730</u> | <u>100.00%</u> |
| Full Tax Rate per \$1,000 of assessed value | <u>\$ 32.60</u> | | <u>\$ 32.30</u> | |

5. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

Plan Description - The District contributes to the School Employees Retirement System of Ohio (“SERS”), a cost-sharing multiple-employer defined benefit pension plan. SERS provides retirement, disability and survivor benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by state statute per Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report can be obtained by contacting SERS, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling toll free (800) 878-5853. It is also posted on SERS’ website at www.ohsers.org under Employers/Audit Resources.

Northwestern Local School District
Wayne County, Ohio
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For the Year Ended June 30, 2013

Funding Policy - Plan members are required to contribute 10% of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current rate is 14% 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 2013, 13.05% and .05% of annual covered salary was the portion used to fund pension obligations and death benefits, respectively. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to statutory maximum amount of 10% for plan members and 14% for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The District's required contributions for pension obligations and death benefits to SERS for the fiscal years ended June 30, 2013, 2012 and 2011 were \$313,743, \$304,750 and \$308,418, respectively; 100% has been contributed for all fiscal years.

B. State Teachers Retirement System

Plan Description - The District participates in the State Teachers Retirement System of Ohio ("STRS Ohio"), a cost-sharing, multiple-employer public employee retirement plan. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a publicly-available, stand-alone financial report that may be obtained by writing to STRS Ohio, 275 East Broad Street, Columbus, Ohio 43215-3371, by calling (888) 227-7877, or by visiting the STRS Ohio website at www.strsoh.org.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB Plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on a member's 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% 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 of credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. Members in the DC plan who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Funding Policy - For fiscal year 2013, plan members were required to contribute 10% of their annual covered salaries. The District was required to contribute 14%; 13% was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employer contributions. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

Northwestern Local School District
Wayne County, Ohio
Notes to the Financial Statements
For the Year Ended June 30, 2013

The District's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2013, 2012 and 2011 were \$732,372, \$785,703 and \$757,404, respectively; 100% has been contributed for all fiscal years.

6. POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

Plan Description – The District participates in two cost-sharing, multiple employer defined benefit OPEB plans administered by the School Employees Retirement System for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's, Medicare Advantage and traditional indemnity plans. A prescription drug plan is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Ohio Revised Code Section 3309.69. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B monthly premium for calendar year 2012 (the latest information available) was \$99.90 for most participants, but could be as high as \$319.70 per month depending on their income. SERS' reimbursement to retirees was \$45.50. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746. It is also posted on SERS' website at www.ohsers.org under Employers/Audit Resources.

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% 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 2013, .16% of covered payroll was allocated to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statutes provide that no employer shall pay a health care surcharge greater than 2.0% of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5% of the statewide SERS-covered payroll for the health care surcharge. For fiscal year 2013, the actuarially determined amount was \$20,525. For the District during fiscal year 2013 the amount was \$3,586.

Active members do not contribute to the postemployment benefit plans. The SERS Retirement Board establishes the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. 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.

Northwestern Local School District
Wayne County, Ohio
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The Retirement Board, acting with advice of the actuary, allocates a portion of the current employer contribution to the Medicare B Fund. For fiscal year 2013, the actuarially required allocation was .74% of covered payroll. The District's contributions for Medicare Part B for the fiscal years ended June 30, 2013, 2012, and 2011 were \$16,584, \$16,326, and \$15,881, respectively; 100% has been contributed for all fiscal years.

B. State Teachers Retirement System

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 financial report of STRS. Interested parties can view the most recent Comprehensive Annual Financial Report by visiting www.strsoh.org or by requesting a copy by calling toll-free (888) 227-7877.

Funding Policy - Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2013, STRS Ohio allocated employer contributions equal to 1% of covered payroll to the Health Care Stabilization Fund. The District's contributions for health care for the fiscal years ended June 30, 2013, 2012, and 2011 were \$56,336, \$56,122, and \$54,100, respectively; 100% has been contributed for all fiscal years.

7. LONG-TERM DEBT OBLIGATIONS

| | Outstanding 7/1/2012 | Additions | Deletions | Outstanding 6/30/2013 |
|------------------------------------|-------------------------|-------------------|-------------------|--------------------------|
| General Obligation Bonds: | | | | |
| 2004 Refunding (1.5% to 5.75%) | \$ 2,270,000 | \$ 0 | \$ 390,000 | \$ 1,880,000 |
| 2011 Refunding (1.0% to 3.2%) | 1,885,000 | 0 | 195,000 | 1,690,000 |
| Notes: | | | | |
| Buses (2.633% - due July 30, 2017) | 0 | 339,848 | 0 | 339,848 |
| Various Improvement Bonds: | | | | |
| 3% - due July 1, 2023 | 725,000 | 0 | 0 | 725,000 |
| | <u>\$ 4,880,000</u> | <u>\$ 339,848</u> | <u>\$ 585,000</u> | <u>\$ 4,634,848</u> |

Outstanding long-term debt obligations consist of school building construction issues and school bus notes. General obligation bonds are direct obligations of the District for which its full faith, credit and resources are pledged and are payable from taxes levied on all taxable property in the District. The bus notes will be paid from the Permanent Improvement fund.

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

In September, 2011, the District issued \$1,885,000 refunded general obligation bonds. The proceeds of the bonds were used to refund in advance of their maturity the December 1, 2011 through December 2018, December 1, 2021, and December 1, 2024 maturities totaling \$1,885,000 of the District's general obligation bonds, 2001. This refunding was done to achieve interest cost savings. Proceeds of the bonds were used to establish an irrevocable escrow account. Funds in the escrow account were invested in special direct obligations of the United States Treasury or other obligations of the United States government or its agencies. The escrow securities and their earnings are structured to pay the principal and interest on the refunded 2001 bonds as such payments become due, until the call dates of the respective refunded bonds, at which time the escrow pays the principal of the refunded bonds at a price of par plus interest. Since these bonds have been placed in irrevocable trust, they are considered defeased for these financial statements. The advance refunding resulted in a difference between reacquisition price and the net carrying amount of the old debt of \$246,825. The economic gain is \$196,902. These refunding bonds were issued with a premium of \$57,564.

In July, 2012, the District was issued a promissory note in the amount of \$339,848 for the purchase of buses at an interest rate of 2.633%, with the loan maturing July 30, 2017.

The annual requirement to amortize all debt outstanding as of June 30, 2013 is as follows:

| Fiscal Year | School Improvement Bonds | 2011 Refunding Bond | Various Improvement Bonds | Bus Loan | Total |
|------------------------------|--------------------------------|---------------------------|---------------------------------|-------------------|---------------------|
| 2014 | \$ 512,892 | \$ 232,079 | \$ 0 | \$ 73,433 | \$ 818,404 |
| 2015 | 515,377 | 236,105 | 0 | 73,433 | 824,915 |
| 2016 | 534,275 | 65,766 | 276,206 | 73,434 | 949,681 |
| 2017 | 540,094 | 70,035 | 276,006 | 73,434 | 959,569 |
| 2018 | 0 | 69,248 | 553,862 | 73,433 | 696,543 |
| 2019-2023 | 0 | 1,166,695 | 0 | 0 | 1,166,695 |
| 2024-2025 | 0 | 229,240 | 0 | 0 | 229,240 |
| Total Principal and Interest | 2,102,638 | 2,069,168 | 1,106,074 | 367,167 | 5,645,047 |
| Less Interest | (222,638) | (379,168) | (381,074) | (27,319) | (1,010,199) |
| Total Principal | <u>\$ 1,880,000</u> | <u>\$ 1,690,000</u> | <u>\$ 725,000</u> | <u>\$ 339,848</u> | <u>\$ 4,634,848</u> |

Northwestern Local School District
Wayne County, Ohio
Notes to the Financial Statements
For the Year Ended June 30, 2013

8. SET ASIDES

The School District is required by State statute to annually set aside in the general fund an amount based on a statutory formula for the acquisition and construction of capital improvements. Amounts not spent by year-end or offset by similarly restricted resources received during the year must be held in cash at year-end and carried forward to be used for the same purposes in future years. In prior years, the School District was also required to set aside money for budget stabilization. At June 30, 2013, only the unspent portion of certain workers' compensation refunds continues to be set aside.

The following cash basis information describes the change in the fiscal year end set aside amounts for budget stabilization and capital acquisition. Disclosure of this information is required by State statute.

| | Budget Stabilization Reserve | Capital Improvement Reserve |
|--|------------------------------------|-----------------------------------|
| Set-Aside Restricted Balance, June 30, 2012 | \$ 173,531 | \$ 0 |
| Current Year Set-Aside Requirement | 0 | 241,528 |
| Contributions in Excess of the Current Fiscal Year Set-Aside Requirement | 0 | 0 |
| Current Year Qualifying Expenditures | 0 | 0 |
| Excess Qualified Expenditures From Prior Years | 0 | 0 |
| Current Year Offset | 0 | (241,528) |
| Waiver Granted by the Department of Education | 0 | 0 |
| Prior Year Offset From Bond Proceeds | 0 | 0 |
| Total | \$ 173,531 | \$ 0 |
| Balance Carried Forward to Fiscal Year 2014 | \$ 173,531 | \$ 0 |
| Set-Aside Restricted Balance June 30, 2013 | \$ 173,531 | \$ 0 |

Although the School District had current year offsets during the fiscal year that could reduce the set aside amount to below zero for the capital acquisition set-aside, this amount may not be used to reduce the set-aside requirements of future years.

9. FUND TRANSFERS

During the fiscal year 2013, the District transferred out from the General Fund \$47,550; \$39,750 to the Management Information System Fund, \$5,000 to the Permanent Improvement Fund, \$2,800 to the Vocational Education Enhancement Fund for subsidy of normal operations. The applicable Ohio Revised Code compliance requirements were met.

Northwestern Local School District
Wayne County, Ohio
Notes to the Financial Statements
For the Year Ended June 30, 2013

10. JOINTLY GOVERNED ORGANIZATION

Tri-County Computer Services Association (TCCSA)

The Tri-County Computer Services Association (TCCSA) is a jointly governed organization comprised of 21 school districts. The jointly governed organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions for member districts. Each of the governments of these districts supports TCCSA based on per pupil charge dependent upon the software package utilized. The TCCSA assembly consists of a superintendent or designated representative from each participating district and a representative from the fiscal agent. TCCSA is governed by a board of directors chosen from the general membership of the TCCSA assembly. The board of directors consists of a representative from the fiscal agent, the chairman of each operating committee, and at least an assembly member from each county from which participating districts are located. Financial information can be obtained by contacting the Treasurer at the Tri-County Educational Service Center, which is the fiscal agent, located at 741 Winkler Drive, Wooster, OH 44691. During the year ended June 30, 2013, the District paid approximately \$54,911 to TCCSA for basic service charges.

11. RISK MANAGEMENT

A. Property and Liability

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

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

B. Workers Compensation

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

Northwestern Local School District
Wayne County, Ohio
Notes to the Financial Statements
For the Year Ended June 30, 2013

C. Dental Insurance

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

12. PUBLIC ENTITY RISK POOL

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

13. CONTINGENT LIABILITIES

A. Grants

The District received financial assistance from federal and State agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. This also encompasses the Auditor of State's ongoing review of student attendance data. However, the effect of any such disallowed claims on the overall financial position of the District at June 30, 2013, if applicable, cannot be determined at this time.

B. Litigation

The District is not party to any claims or lawsuits that would, in the District's opinion, have a material effect of the basic financial statements.

C. Significant Encumbrances

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

| <u>Fund</u> | <u>Amount</u> |
|------------------|---------------|
| General | \$ 425,187 |
| Special Revenue | 50,907 |
| Capital Projects | 18,982 |

Northwestern Local School District
Wayne County, Ohio
Notes to the Financial Statements
For the Year Ended June 30, 2013

14. COMPLIANCE

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

15. FUND BALANCE

Fund balance can be classified as nonspendable, restricted, committed, assigned and/or unassigned based primarily on the extent to which the District is bound to observe constraints imposed upon the use of the resources in governmental funds.

The constraints placed on fund cash balance for the major governmental fund types are presented as follows:

| | General Fund | Special Revenue Funds | Debt Service Funds | Capital Project Funds | Total |
|--------------------------------|---------------------|-----------------------------|--------------------------|-----------------------------|---------------------|
| Restricted for: | | | | | |
| Capital Projects | \$ 0 | \$ 0 | \$ 0 | \$ 128,332 | \$ 128,332 |
| Debt Service | 0 | 0 | 1,739,145 | 0 | 1,739,145 |
| Maintenance Fund | 0 | 87,500 | 0 | 0 | 87,500 |
| Student Activities | 0 | 53,632 | 0 | 0 | 53,632 |
| Other Purposes | 0 | 14,606 | 0 | 0 | 14,606 |
| Total Restricted | 0 | 155,738 | 1,739,145 | 128,332 | 2,023,215 |
| Assigned for: | | | | | |
| Encumbrances: | | | | | |
| Instructional | 149,500 | 0 | 0 | 0 | 149,500 |
| Support Services | 275,187 | 0 | 0 | 0 | 275,187 |
| Extracurricular Activities | 500 | 0 | 0 | 0 | 500 |
| Subsequent Year Appropriations | 564,422 | 0 | 0 | 0 | 564,422 |
| Other Purposes | 93,682 | 0 | 0 | 0 | 93,682 |
| Total Assigned | 1,083,291 | 0 | 0 | 0 | 1,083,291 |
| Unassigned | 1,553,483 | 0 | 0 | 0 | 1,553,483 |
| Total Fund Cash Balance | \$ 2,636,774 | \$ 155,738 | \$ 1,739,145 | \$ 128,332 | \$ 4,659,989 |

August 30, 2013

To Board of Education and Management
Northwestern Local School District
Wayne County, Ohio
7571 N. Elyria Road
West Salem, OH 44287

**Independent Auditor's Report on Internal Control over
Financial Reporting and on Compliance and Other Matters
Required by *Government Auditing Standards***

We have audited in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the Northwestern Local School District, Wayne County, Ohio, (the District) as of and for the year ended June 30, 2013, and the related notes to the financial statements and have issued our report thereon dated August 30, 2013, wherein we issued an adverse opinion on the District's accompanying financial statements because they do not present fairly the financial position, results of operations and cash flows in accordance with accounting principles generally accepted in the United States of America.

Internal Control over Financial Reporting

As part of our financial statement audit, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinions on the financial statements, but not to the extent necessary to opine on the effectiveness of the District's internal control. Accordingly, we have not opined on it.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the District's financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. However, unidentified material weaknesses may exist.

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, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matters we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2013-001.

District's Response to Findings

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

Purpose of this Report

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Rea & Associates, Inc.

Medina, Ohio

August 30, 2013

To Board of Education and Management
Northwestern Local School District
Wayne County, Ohio
7571 N. Elyria Road
West Salem, OH 44287

**Independent Auditor's Report on Compliance with Requirements
Applicable To Each Major Federal Program and on
Internal Control over Compliance Required By OMB Circular A-133**

Report on Compliance for the Major Federal Program

We have audited the Northwestern Local School District's, Wayne County, Ohio (the District) compliance with the applicable requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that could directly and materially affect the District's major federal program for the year ended June 30, 2013. The *Summary of Auditor's Results* in the accompanying schedule of findings identifies the District's major federal program.

Management's Responsibility

The District's Management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to its federal program.

Auditor's Responsibility

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

We believe our audit provides a reasonable basis for our compliance opinion on the District's major program. However, our audit does not provide a legal determination of the District's compliance.

Opinion on the Major Federal Program

In our opinion, the Northwestern Local School District, Wayne County, Ohio complied, in all material respects with the compliance requirements referred to above that could directly and materially affect its major federal program for the year ended June 30, 2013.

Report on Internal Control over Compliance

The District's management is responsible for establishing and maintaining effective internal control over compliance with the applicable compliance requirements referred to above. In planning and performing our compliance audit, we considered the District's internal control over compliance with the applicable requirements that could directly and materially affect a major federal program, to determine our auditing procedures appropriate for opining on each major federal program's compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not to the extent needed to opine on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program's applicable compliance requirement. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a federal program compliance requirement will not be prevented, or timely detected and corrected. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with federal program's applicable compliance requirement that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

This report only describes the scope of our internal control compliance tests and the results of this testing based on OMB Circular A-133 requirements. Accordingly, this report is not suitable for any other purpose.

Rea & Associates, Inc.

Medina, Ohio

Northwestern Local School District
Wayne County, Ohio
Schedule of Expenditures of Federal Awards
For The Fiscal Year Ended June 30, 2013

| Federal Grantor/Pass Through Grantor Program Title | Grant Year | CFDA Number | Federal Receipts | Federal Expenditures |
|---|------------|----------------|---------------------|-------------------------|
| U.S. Department of Education | | | | |
| <i>Passed Through Ohio Department of Education:</i> | | | | |
| Title I Grants to Local Educational Agencies | 2013 | 84.010 | \$ 267,796 | \$ 267,796 |
| Special Education - Grants to States | 2013 | 84.027 | 264,202 | 264,202 |
| Title II-A - Improving Teacher Quality | 2013 | 84.367 | 46,609 | 46,609 |
| Total U.S. Department of Education | | | 578,607 | 578,607 |
| U.S. Department of Agriculture | | | | |
| <i>Passed Through Ohio Department of Education:</i> | | | | |
| <i>Child Nutrition Cluster:</i> | | | | |
| <i>Non-Cash Assistance (Food Distribution):</i> | | | | |
| National School Lunch Program | 2013 | 10.555 | 40,167 | 40,167 |
| <i>Cash Assistance:</i> | | | | |
| School Breakfast Program | 2013 | 10.553 | 50,743 | 50,743 |
| National School Lunch Program | 2013 | 10.555 | 256,496 | 256,496 |
| <i>Cash Assistance Subtotal</i> | | | 307,239 | 307,239 |
| <i>Total Child Nutrition Cluster</i> | | | 347,406 | 347,406 |
| Total U.S. Department of Agriculture | | | 347,406 | 347,406 |
| TOTAL FEDERAL ASSISTANCE | | | \$ 926,013 | \$ 926,013 |

See accompanying notes to this schedule

Northwestern Local School District
Wayne County, Ohio
Notes to the Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2013

Note A – Significant Accounting Policies

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) reports the federal award programs' receipts and disbursements. The schedule has been prepared on the cash basis of accounting. Consequently, certain revenues are recognized when received rather than when earned and certain expenditures are recognized when paid rather than when the obligation is incurred.

Note B - Child Nutrition Cluster

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

Note C – Food Donation Program

Program regulations do not require the School District to maintain separate inventory records for purchased food and food received from the U.S. Department of Agriculture. This non-monetary assistance and related expenditures are reported in this schedule at the value of the commodities received as assessed by the U.S. Department of Agriculture (entitlement value).

Northwestern Local School District
Wayne County, Ohio
Schedule of Findings
OMB Circular A-133, Section .505
June 30, 2013

| |
|--|
| 1. SUMMARY OF AUDITOR'S RESULTS |
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| | | |
|----------------|---|---|
| (d) (1) (i) | Type of Financial Statement Opinion | Adverse |
| (d) (1) (ii) | Were there any material control weakness conditions reported at the financial statement level (GAGAS)? | No |
| (d) (1) (ii) | Were there any other significant deficiency conditions reported at the financial statement level (GAGAS)? | No |
| (d) (1) (iii) | Was there any reported material non-compliance at the financial statement level (GAGAS)? | Yes |
| (d) (1) (iv) | Was there any material internal control weakness conditions reported for major federal programs? | No |
| (d) (1) (iv) | Were there any other significant deficiencies reported for major federal programs? | No |
| (d) (1) (v) | Type of Major Programs' Compliance Opinion | Unmodified |
| (d) (1) (vi) | Are there any reportable findings under Section .510? | No |
| (d) (1) (vii) | Major Programs (list): Special Education - Grants to States | CFDA #84.027 |
| (d) (1) (viii) | Dollar Threshold: Type A/B Programs | Type A: > \$300,000 Type B: All others |
| (d) (1) (ix) | Low Risk Auditee? | Yes |

Northwestern Local School District
Wayne County, Ohio
Schedule of Findings (Continued)
OMB Circular A-133, Section .505
June 30, 2013

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

Finding Number: 2013-001 - **Material Non-Compliance**

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

Ohio Admin. Code Section 117-2-03(B) requires the District to prepare its annual financial report in accordance with generally accepted accounting principles. GASB Statement 34, “Basic Financial Statements – and Management’s Discussion and Analysis – For State and Local Governments” requires the School District’s basic financial statements and required supplementary information (RSI) consist of the following:

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

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

Cause: For fiscal year 2013, the District prepared its financial statements in accordance with standards established by the Auditor of State for governmental entities not required to prepare annual reports in accordance with generally accepted accounting principles. The accompanying financial statements and notes omit assets, liabilities, fund equities, and disclosures that, while material, cannot be determined at this time.

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

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

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

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|---------------------------------------|
| 3. FINDINGS FOR FEDERAL AWARDS |
|---------------------------------------|

None

Northwestern Local School District
Wayne County, Ohio
Schedule of Prior Audit Findings
June 30, 2013

| Finding Number | Finding Summary | Fully Corrected? | Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain: |
|-----------------------|---|-------------------------|--|
| 2012-001 | Ohio Admin. Code Section 117-2-03(B) , Prepare Annual Financial Report in Accordance with Generally Accepted Accounting Principles | No | Repeated as Finding 2013-001 |

August 30, 2013

To the Board of Education and Management
Northwestern Local School District
Wayne County, Ohio
7571 N. Elyria Road
West Salem, OH 44287

Independent Accountant's Report on Applying Agreed-Upon Procedure

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

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

1. We noted the Board amended its anti-harassment policy at its meeting on August 14, 2012, to include prohibiting harassment, intimidation, or bullying of any student "on a school bus" or by an "electronic act."

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

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

Rea & Associates, Inc.

Medina, Ohio



Dave Yost • Auditor of State

NORTHWESTERN LOCAL SCHOOL DISTRICT

WAYNE COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
OCTOBER 17, 2013**