

STATE BOARD OF ACCOUNTS
302 West Washington Street
Room E418
INDIANAPOLIS, INDIANA 46204-2769

FINANCIAL STATEMENT AND
FEDERAL SINGLE AUDIT REPORT
OF

NORTHWESTERN SCHOOL CORPORATION
HOWARD COUNTY, INDIANA

July 1, 2009 to June 30, 2011



FILED

03/09/2012

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Cami J. McLeland	07-01-09 to 06-30-12
Superintendent of Schools	Ryan Snoddy	07-01-09 to 06-30-12
President of the School Board	Stephen Long Ted Merrell Howard Eller	07-01-09 to 06-30-10 07-01-10 to 06-30-11 07-01-11 to 06-30-12



STATE OF INDIANA
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INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENT
AND SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

TO: THE OFFICIALS OF THE NORTHWESTERN SCHOOL
CORPORATION, HOWARD COUNTY, INDIANA

We have audited the accompanying financial statement of the Northwestern School Corporation (School Corporation), for the years ended June 30, 2010 and 2011. This financial statement is the responsibility of the School Corporation's management. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial is free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the School Corporation's internal control over reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the School Corporation prepares its financial statement on the prescribed basis of accounting that demonstrates compliance with the reporting requirements established by the State Board of Accounts as allowed by state statute (IC 5-11-1-6), which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The basis of accounting noted above is a different basis than that used in the prior year.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the financial position and results of operations of the School Corporation for the years ended June 30, 2010 and 2011, on the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued a report dated December 21, 2011, on our consideration of the School Corporation's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENT
AND SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
(Continued)

Our audit was conducted for the purpose of forming an opinion on the School Corporation's financial statement. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of 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 statement. Such information has been subjected to the auditing procedures applied in the audit of the financial statement and, in our opinion, is fairly stated, in all material respects, in relation to the financial statement taken as a whole.

Our audit was conducted for the purpose of forming an opinion on the School Corporation's financial statement. The Combining Schedules of Receipts, Disbursements, Other Financing Sources (Uses), and Cash and Investment Balances – Regulatory Basis, Schedule of Capital Assets, and Schedule of Long-Term Debt are presented for additional analysis and are not required parts of the financial statement. The Combining Schedules of Receipts, Disbursements, Other Financing Sources (Uses), and Cash and Investment Balances – Regulatory Basis, Schedule of Capital Assets, and Schedule of Long-Term Debt have not been subjected to the auditing procedures applied by us in the audit of the financial statement and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the School Corporation's management, School Board, others within the entity, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. In accordance with Indiana Code 5-11-5-1, this report is a part of the public records of the State Board of Accounts and of the office examined.

STATE BOARD OF ACCOUNTS

December 21, 2011



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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENT
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

TO: THE OFFICIALS OF THE NORTHWESTERN SCHOOL
CORPORATION, HOWARD COUNTY, INDIANA

We have audited the financial statement of the Northwestern School Corporation (School Corporation), for the years ended June 30, 2010 and 2011, and have issued our report thereon dated December 21, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as item 2011-1 to be material weaknesses.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS
(Continued)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School Corporation's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

The School Corporation's response to the findings identified in our audit is described in the accompanying section of the report entitled Corrective Action Plan. We did not audit the School Corporation's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the School Corporation's management, School Board, others within the entity, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. In accordance with Indiana Code 5-11-5-1, this report is a part of the public records of the State Board of Accounts and of the office examined.

STATE BOARD OF ACCOUNTS

December 21, 2011

FINANCIAL STATEMENT

The financial statement and accompanying notes were approved by management of the School Corporation. The financial statement and notes are presented as intended by the School Corporation.

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NORTHWESTERN SCHOOL CORPORATION
STATEMENT OF RECEIPTS, DISBURSEMENTS, OTHER FINANCING SOURCES (USES), AND CASH AND INVESTMENT BALANCES -
REGULATORY BASIS
For the Years Ended June 30, 2010 and 2011

	Cash and Investments 07-01-09		Other Financing Sources (Uses)		Cash and Investments 06-30-10		Other Financing Sources (Uses)		Cash and Investments 06-30-11	
	Receipts	Disbursements	Receipts	Disbursements	Receipts	Disbursements	Receipts	Disbursements	Receipts	Disbursements
General	\$ (885,563)	\$ 9,608,406	\$ 8,939,010	\$ 353,318	\$ 137,151	\$ 9,637,037	\$ 9,999,913	\$ 240,649	\$ 14,924	
Debt Service	271,281	3,201,301	2,047,000	-	1,425,582	1,904,809	2,014,000	-	1,316,391	
Retirement/Severance Bond Debt Service	25,174	235,109	169,648	-	90,635	191,336	165,760	-	116,211	
Capital Projects	53,528	3,318,412	2,438,478	(325,000)	608,462	2,728,587	2,154,294	(340,000)	842,755	
School Transportation	(243,565)	1,768,512	1,204,309	(125,000)	195,638	1,489,523	1,223,295	(225,000)	236,866	
School Bus Replacement	101,189	186,050	170,402	-	116,837	156,234	152,534	-	120,537	
Special Education Preschool	65,294	26,125	14,723	(76,696)	-	-	-	-	-	
Rainy Day	187,900	-	-	300,000	487,900	176,034	263,658	250,000	650,276	
School Lunch	115,914	613,094	593,750	-	135,258	631,571	595,621	-	171,208	
Textbook Rental	(156,013)	129,890	88,046	-	(114,169)	126,599	67,981	-	(55,551)	
Self-Insurance	15,064	-	-	-	15,064	-	-	-	15,064	
Levy Excess	51,308	29,637	-	(51,308)	29,637	-	-	-	29,637	
Educational License Plates	94	-	-	-	94	-	-	-	94	
Cultural Arts	1,000	-	-	-	1,000	-	-	-	1,000	
Indiana Next Leadership	2,513	-	-	-	2,513	-	-	-	2,513	
I Love To Read Award	292	-	-	-	292	-	292	-	-	
Northwestern Fine Arts	67	-	-	-	67	-	-	-	67	
Teacher Quality Improvement Program	1,569	32,078	31,781	-	1,866	31,598	23,885	-	9,579	
Indiana Arts Commission	900	-	-	-	900	-	-	-	900	
Scholarships and Awards	12	-	-	-	12	-	-	-	12	
Non-English Speaking Program	6,985	1,226	-	-	8,211	-	-	-	8,211	
School Technology	4,615	98	1,648	-	3,065	11,563	4,024	-	10,604	
Technology Plan	222	-	222	-	-	-	-	-	-	
Emergency Impact Aid	7,500	-	-	-	7,500	-	-	-	7,500	
Mentor Teacher	175	-	-	-	175	-	-	-	175	
Title I	68,568	220,861	226,734	(75,000)	(12,305)	86,653	188,127	75,000	(38,779)	
Innovative Education	4,211	808	2,034	-	2,985	-	-	-	2,985	
Drug Free Schools	8,215	2,000	9,705	-	510	-	-	-	510	
Improving Teaching Quality	26,799	30,001	56,084	-	716	-	16,630	-	(15,914)	
Enhancing Education	921	-	921	-	-	-	-	-	-	
Title III Limited English	(1,688)	1,496	2,407	-	(2,599)	832	1,804	-	(3,571)	
Fiscal Stabilization	824,050	332,380	1,156,430	-	-	-	-	-	-	
Title I - Grants to LEAS	-	46,694	84,849	-	(38,155)	93,384	55,229	-	-	
Special Education - Part B	-	150,710	147,476	-	3,234	112,870	113,661	-	2,443	
Special Education - Part B Preschool	-	4,527	-	-	4,527	-	-	-	4,527	
Education Jobs	-	-	-	-	-	143,345	143,345	-	-	
Totals	\$ 558,531	\$ 19,939,415	\$ 17,385,657	\$ 314	\$ 3,112,603	\$ 17,521,975	\$ 17,184,053	\$ 649	\$ 3,451,174	

The notes to the financial statement are an integral part of this statement.

NORTHWESTERN SCHOOL CORPORATION
NOTES TO FINANCIAL STATEMENT

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

School Corporation, as used herein, shall include, but is not limited to, school townships, school towns, school cities, consolidated school corporations, joint schools, metropolitan school districts, township school districts, county schools, united schools, school districts, cooperatives, educational service centers, community schools, community school corporations, and charter schools.

The School Corporation was established under the laws of the State of Indiana. The School Corporation operates under a Board of School Trustees form of government and provides educational services.

The accompanying financial statement presents the financial information for the School Corporation (primary government).

B. Basis of Accounting

The financial statement is reported on a regulatory basis of accounting prescribed by the State Board of Accounts in accordance with state statute (IC 5-11-1-6), which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

The regulatory basis of accounting differs from accounting principles generally accepted in the United States of America in that receipts are recognized when received in cash, rather than when earned, and disbursements are recognized when paid, rather than when a liability is incurred.

C. Cash and Investments

Investments are stated at cost. Any changes in fair value of the investments are reported as receipts in the year of the sale of the investment.

D. Receipts

Receipts are presented in the aggregate on the face of the financial statement. The aggregate receipts include the following sources:

Local sources which include taxes, revenue from local governmental units other than school corporations, transfer tuition, transportation fees, investment income, food services, school corporation activities, revenue from community services activities, and other revenue from local sources.

Intermediate sources which include distributions from the County for fees collected for or on behalf of the School Corporation including educational license plate fees, congressional interest, riverboat distributions, and other similar fees.

State sources which include distributions from the State of Indiana to be used by the School Corporation for various purposes. Included in state sources are unrestricted grants, restricted grants, revenue in lieu of taxes, and revenue for or on behalf of the School Corporation.

NORTHWESTERN SCHOOL CORPORATION
NOTES TO FINANCIAL STATEMENT
(Continued)

Federal sources which include distributions from the federal government to be used by the School Corporation for various purposes. Included in federal sources are unrestricted grants, restricted grants, revenue in lieu of taxes, and revenue for or on behalf of the School Corporation.

Other receipts which include amounts received from various sources which include return of petty cash, return of cash change, insurance claims for losses, sale of securities, and other receipts not listed in another category above.

E. Disbursements

Disbursements are presented in the aggregate on the face of the financial statement. The aggregate disbursements include the following uses:

Instruction which includes outflows for regular programs, special programs, adult and continuing education programs, summer school programs, enrichment programs, remediation, and payments to other governmental units.

Support services which include outflows for support services related to students, instruction, general administration, and school administration. It also includes outflows for central services, operation and maintenance of plant services, and student transportation.

Noninstructional services which include outflows for food service operations and community service operations.

Facilities acquisition and construction which includes outflows for the acquisition, development, construction, and improvement of new and existing facilities.

Debt services which include fixed obligations resulting from financial transactions previously entered into by the School Corporation. It includes all expenditures for the reduction of the principal and interest of the School Corporation's general obligation indebtedness.

Nonprogrammed charges which include outflows for donations to foundations, securities purchased, indirect costs, scholarships, and self-insurance payments.

F. Other financing sources and uses

Other financing sources and uses are presented in the aggregate on the face of the financial statement. The aggregate other financing sources and uses include the following:

Sale of capital assets which includes money received when land, buildings, or equipment owned by the School Corporation is sold.

Transfers in which includes money received by one fund as a result of transferring money from another fund. The transfers are used for cash flow purposes as provided by various statutory provisions.

Transfers out which includes money paid by one fund to another fund. The transfers are used for cash flow purposes as provided by various statutory provisions.

NORTHWESTERN SCHOOL CORPORATION
NOTES TO FINANCIAL STATEMENT
(Continued)

G. Fund Accounting

Separate funds are established, maintained, and reported by the School Corporation. Each fund is used to account for money received from and used for specific sources and uses as determined by various regulations. Restrictions on some funds are set by statute while other funds are internally restricted by the School Corporation. The money accounted for in a specific fund may only be available for use for certain, legally restricted purposes. Additionally, some funds are used to account for assets held by the School Corporation in a trustee capacity as an agent of individuals, private organizations, other funds, or other governmental units and therefore the funds cannot be used for any expenditures of the unit itself.

Note 2. Budgets

The operating budget is initially prepared and approved at the local level. The fiscal officer of the School Corporation submits a proposed operating budget to the governing board for the following calendar year. The budget is advertised as required by law. Prior to adopting the budget, the governing board conducts public hearings and obtains taxpayer comments. Prior to November 1, the governing board approves the budget for the next year. The budget for funds for which property taxes are levied is subject to final approval by the Indiana Department of Local Government Finance.

Note 3. Property Taxes

Property taxes levied are collected by the County Treasurer and are scheduled to be distributed to the School Corporation in June and December; however, situations can arise which would delay the distributions. State statute (IC 6-1.1-17-16) requires the Indiana Department of Local Government Finance to establish property tax rates and levies by February 15. These rates were based upon the preceding year's March 1 (lien date) assessed valuations adjusted for various tax credits. Taxable property is assessed at 100 percent of the true tax value (determined in accordance with rules and regulations adopted by the Indiana Department of Local Government Finance). Taxes may be paid in two equal installments which normally become delinquent if not paid by May 10 and November 10, respectively.

Note 4. Deposits and Investments

Deposits, made in accordance with state statute (IC 5-13), with financial institutions in the State of Indiana at year end should be entirely insured by the Federal Depository Insurance Corporation or by the Indiana Public Deposit Insurance Fund. This includes any deposit accounts issued or offered by a qualifying financial institution.

State statutes authorize the School Corporation to invest in securities including, but not limited to, federal government securities, repurchase agreements, and certain money market mutual funds. Certain other statutory restrictions apply to all investments made by local governmental units.

NORTHWESTERN SCHOOL CORPORATION
NOTES TO FINANCIAL STATEMENT
(Continued)

Note 5. Risk Management

The School Corporation may be exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; medical benefits to employees, retirees, and dependents; and natural disasters.

These risks can be mitigated through the purchase of insurance, establishment of a self-insurance fund, and/or participation in a risk pool. The purchase of insurance transfers the risk to an independent third party. The establishment of a self-insurance fund allows the School Corporation to set aside money for claim settlements. The self-insurance fund would be included in the financial statement. The purpose of participation in a risk pool is to provide a medium for the funding and administration of the risks. These risks may also be mitigated by the School Corporation by recording as a disbursement and replacement items purchased.

Note 6. Pension Plans

A. Public Employees' Retirement Fund

Plan Description

The Indiana Public Employees' Retirement Fund (PERF) is a defined benefit pension plan. PERF is an agent multiple-employer public employee retirement system, which provides retirement benefits to plan members and beneficiaries. All full-time employees are eligible to participate in this defined benefit plan. State statutes (IC 5-10.2 and 5-10.3) govern, through the Indiana Public Retirement System (INPRS) Board, most requirements of the system, and give the School Corporation authority to contribute to the plan. The PERF retirement benefit consists of the pension provided by employer contributions plus an annuity provided by the member's annuity savings account. The annuity savings account consists of members' contributions, set by state statute at 3 percent of compensation, plus the interest credited to the member's account. The employer may elect to make the contributions on behalf of the member.

INPRS administers the plan and issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole and for its participants. That report may be obtained by contacting:

Indiana Public Retirement System
1 North Capital Street, Suite 001
Indianapolis, IN 46204
Ph. (888) 526-1687

Funding Policy and Annual Pension Cost

The contribution requirements of the plan members for PERF are established by the Board of Trustees of INPRS.

NORTHWESTERN SCHOOL CORPORATION
NOTES TO FINANCIAL STATEMENT
(Continued)

B. Teachers' Retirement Fund

Plan Description

The Indiana Teachers' Retirement Fund (TRF) is a defined benefit pension plan. TRF is a cost-sharing multiple-employer public employee retirement system, which provides retirement benefits to plan members and beneficiaries. All employees engaged in teaching or in the supervision of teaching in the public schools of the State of Indiana are eligible to participate in TRF. State statute (IC 5-10.2) governs, through the Indiana Public Retirement System (INPRS) Board, most requirements of the system, and gives the School Corporation authority to contribute to the plan. The TRF retirement benefit consists of the pension provided by employer contributions plus an annuity provided by the member's annuity savings account. The annuity savings account consists of members' contributions, set by state statute at 3 percent of compensation, plus the interest credited to the member's account. The School Corporation may elect to make the contributions on behalf of the member.

INPRS issues a publicly available financial report that includes financial statements and required supplementary information for the TRF plan as a whole and for its participants. That report may be obtained by contacting:

Indiana Public Retirement System
1 North Capital Street, Suite 001
Indianapolis, IN 46204
Ph. (888) 286-3544

Funding Policy and Annual Pension Cost

The School Corporation contributes the employer's share to TRF for certified employees employed under a federally funded program and all the certified employees hired after July 1, 1995. The School Corporation currently receives partial funding, through the school funding formula, from the State of Indiana for this contribution. The employer's share of contributions for certified personnel who are not employed under a federally funded program and were hired before July 1, 1995, is considered to be an obligation of, and is paid by, the State of Indiana.

SUPPLEMENTARY INFORMATION – UNAUDITED

For additional financial information, the School Corporation's Financial Reports can be found on the Indiana Department of Education website: <http://mustang.doe.state.in.us/TRENDS/fin.cfm>. This website is maintained by the Indiana Department of Education. More current financial information is available from the School Corporation Treasurer's office.

Differences may be noted between the financial information presented in the financial statement contained in this report and the financial information presented in the Financial Reports of the School Corporation which are referenced above. These differences, if any, are due to adjustments made to the financial information during the course of the audit. This is a common occurrence in any financial statement audit. The financial information presented in this report is audited information, and the accuracy of such information can be determined by reading the opinion given in the Independent Auditor's Report.

The supplementary information presented was prepared and/or approved by management of the School Corporation. It is presented as intended by the School Corporation.

NORTHWESTERN SCHOOL CORPORATION
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, OTHER FINANCING SOURCES (USES), AND CASH AND INVESTMENT BALANCES -
 REGULATORY BASIS
 For the Year Ended June 30, 2010

	General	Debt Service	Retirement/ Severance Bond Debt Service	Capital Projects	School Transportation	School Bus Replacement	Special Education Preschool	Rainy Day	School Lunch
Cash and investments - beginning	\$ (885,563)	\$ 271,281	\$ 25,174	\$ 53,528	\$ (243,565)	\$ 101,189	\$ 65,294	\$ 187,900	\$ 115,914
Receipts:									
Local sources	194,643	3,201,301	235,109	3,310,675	1,768,512	186,050	-	-	469,540
Intermediate sources	171	-	-	-	-	-	-	-	-
State sources	9,413,592	-	-	-	-	-	26,125	-	6,779
Federal sources	-	-	-	-	-	-	-	-	136,005
Other	-	-	-	7,737	-	-	-	-	770
Total receipts	<u>9,608,406</u>	<u>3,201,301</u>	<u>235,109</u>	<u>3,318,412</u>	<u>1,768,512</u>	<u>186,050</u>	<u>26,125</u>	<u>-</u>	<u>613,094</u>
Disbursements:									
Current:									
Instruction	5,693,404	-	-	-	-	-	14,723	-	22,692
Support services	3,097,770	-	-	1,390,642	1,204,309	170,402	-	-	3,567
Noninstructional services	145,468	-	-	-	-	-	-	-	567,491
Facilities acquisition and construction	-	-	-	1,047,836	-	-	-	-	-
Debt services	-	2,047,000	169,648	-	-	-	-	-	-
Nonprogrammed charges	2,368	-	-	-	-	-	-	-	-
Total disbursements	<u>8,939,010</u>	<u>2,047,000</u>	<u>169,648</u>	<u>2,438,478</u>	<u>1,204,309</u>	<u>170,402</u>	<u>14,723</u>	<u>-</u>	<u>593,750</u>
Excess (deficiency) of receipts over disbursements	<u>669,396</u>	<u>1,154,301</u>	<u>65,461</u>	<u>879,934</u>	<u>564,203</u>	<u>15,648</u>	<u>11,402</u>	<u>-</u>	<u>19,344</u>
Other financing sources (uses):									
Sale of capital assets	314	-	-	-	-	-	-	-	-
Transfers in	353,004	-	-	-	-	-	-	300,000	-
Transfers out	-	-	-	(325,000)	(125,000)	-	(76,696)	-	-
Total other financing sources (uses)	<u>353,318</u>	<u>-</u>	<u>-</u>	<u>(325,000)</u>	<u>(125,000)</u>	<u>-</u>	<u>(76,696)</u>	<u>300,000</u>	<u>-</u>
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	<u>1,022,714</u>	<u>1,154,301</u>	<u>65,461</u>	<u>554,934</u>	<u>439,203</u>	<u>15,648</u>	<u>(65,294)</u>	<u>300,000</u>	<u>19,344</u>
Cash and investments - ending	<u>\$ 137,151</u>	<u>\$ 1,425,582</u>	<u>\$ 90,635</u>	<u>\$ 608,462</u>	<u>\$ 195,638</u>	<u>\$ 116,837</u>	<u>\$ -</u>	<u>\$ 487,900</u>	<u>\$ 135,258</u>

NORTHWESTERN SCHOOL CORPORATION
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, OTHER FINANCING SOURCES (USES), AND CASH AND INVESTMENT BALANCES -
 REGULATORY BASIS
 For the Year Ended June 30, 2010
 (Continued)

	Textbook Rental	Self- Insurance	Levy Excess	Educational License Plates	Cultural Arts	Indiana Next Leadership	I Love To Read Award	Northwestern Fine Arts	Teacher Quality Improvement Program
Cash and investments - beginning	\$ (156,013)	\$ 15,064	\$ 51,308	\$ 94	\$ 1,000	\$ 2,513	\$ 292	\$ 67	\$ 1,569
Receipts:									
Local sources	104,392	-	29,637	-	-	-	-	-	-
Intermediate sources	-	-	-	-	-	-	-	-	-
State sources	25,498	-	-	-	-	-	-	-	32,078
Federal sources	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-
Total receipts	129,890	-	29,637	-	-	-	-	-	32,078
Disbursements:									
Current:									
Instruction	-	-	-	-	-	-	-	-	31,781
Support services	88,046	-	-	-	-	-	-	-	-
Noninstructional services	-	-	-	-	-	-	-	-	-
Facilities acquisition and construction	-	-	-	-	-	-	-	-	-
Debt services	-	-	-	-	-	-	-	-	-
Nonprogrammed charges	-	-	-	-	-	-	-	-	-
Total disbursements	88,046	-	-	-	-	-	-	-	31,781
Excess (deficiency) of receipts over disbursements	41,844	-	29,637	-	-	-	-	-	297
Other financing sources (uses):									
Sale of capital assets	-	-	-	-	-	-	-	-	-
Transfers in	-	-	-	-	-	-	-	-	-
Transfers out	-	-	(51,308)	-	-	-	-	-	-
Total other financing sources (uses)	-	-	(51,308)	-	-	-	-	-	-
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	41,844	-	(21,671)	-	-	-	-	-	297
Cash and investments - ending	\$ (114,169)	\$ 15,064	\$ 29,637	\$ 94	\$ 1,000	\$ 2,513	\$ 292	\$ 67	\$ 1,866

NORTHWESTERN SCHOOL CORPORATION
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, OTHER FINANCING SOURCES (USES), AND CASH AND INVESTMENT BALANCES -
 REGULATORY BASIS
 For the Year Ended June 30, 2010
 (Continued)

	Indiana Arts Commission	Scholarships and Awards	Non-English Speaking Program	School Technology	Technology Plan	Emergency Impact Aid	Mentor Teacher	Title I	Innovative Education
Cash and investments - beginning	\$ 900	\$ 12	\$ 6,985	\$ 4,615	\$ 222	\$ 7,500	\$ 175	\$ 68,568	\$ 4,211
Receipts:									
Local sources	-	-	-	-	-	-	-	-	-
Intermediate sources	-	-	-	-	-	-	-	-	-
State sources	-	-	1,226	98	-	-	-	-	-
Federal sources	-	-	-	-	-	-	-	220,861	808
Other	-	-	-	-	-	-	-	-	-
Total receipts	-	-	1,226	98	-	-	-	220,861	808
Disbursements:									
Current:									
Instruction	-	-	-	-	222	-	-	222,602	-
Support services	-	-	-	1,648	-	-	-	4,132	2,034
Noninstructional services	-	-	-	-	-	-	-	-	-
Facilities acquisition and construction	-	-	-	-	-	-	-	-	-
Debt services	-	-	-	-	-	-	-	-	-
Nonprogrammed charges	-	-	-	-	-	-	-	-	-
Total disbursements	-	-	-	1,648	222	-	-	226,734	2,034
Excess (deficiency) of receipts over disbursements	-	-	1,226	(1,550)	(222)	-	-	(5,873)	(1,226)
Other financing sources (uses):									
Sale of capital assets	-	-	-	-	-	-	-	-	-
Transfers in	-	-	-	-	-	-	-	-	-
Transfers out	-	-	-	-	-	-	-	(75,000)	-
Total other financing sources (uses)	-	-	-	-	-	-	-	(75,000)	-
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	-	-	1,226	(1,550)	(222)	-	-	(80,873)	(1,226)
Cash and investments - ending	\$ 900	\$ 12	\$ 8,211	\$ 3,065	\$ -	\$ 7,500	\$ 175	\$ (12,305)	\$ 2,985

NORTHWESTERN SCHOOL CORPORATION
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, OTHER FINANCING SOURCES (USES), AND CASH AND INVESTMENT BALANCES -
 REGULATORY BASIS
 For the Year Ended June 30, 2010
 (Continued)

	Drug Free Schools	Improving Teaching Quality	Enhanced Education	Title III Limited English	Fiscal Stabilization	Title I Grants to LEAS	Special Education Part B	Special Education Part B Preschool	Totals
Cash and investments - beginning	\$ 8,215	\$ 26,799	\$ 921	\$ (1,688)	\$ 824,050	\$ -	\$ -	\$ -	\$ 558,531
Receipts:									
Local sources	-	-	-	-	-	-	-	-	9,499,859
Intermediate sources	-	-	-	-	-	-	-	-	171
State sources	-	-	-	-	-	-	-	-	9,505,396
Federal sources	2,000	30,001	-	1,496	332,380	46,694	150,710	4,527	925,482
Other	-	-	-	-	-	-	-	-	8,507
Total receipts	2,000	30,001	-	1,496	332,380	46,694	150,710	4,527	19,939,415
Disbursements:									
Current:									
Instruction	-	30,000	-	2,407	1,156,430	75,198	13,157	-	7,262,616
Support services	9,705	26,084	921	-	-	6,926	111,942	-	6,118,128
Noninstructional services	-	-	-	-	-	2,725	-	-	715,684
Facilities acquisition and construction	-	-	-	-	-	-	22,377	-	1,070,213
Debt services	-	-	-	-	-	-	-	-	2,216,648
Nonprogrammed charges	-	-	-	-	-	-	-	-	2,368
Total disbursements	9,705	56,084	921	2,407	1,156,430	84,849	147,476	-	17,385,657
Excess (deficiency) of receipts over disbursements	(7,705)	(26,083)	(921)	(911)	(824,050)	(38,155)	3,234	4,527	2,553,758
Other financing sources (uses):									
Sale of capital assets	-	-	-	-	-	-	-	-	314
Transfers in	-	-	-	-	-	-	-	-	653,004
Transfers out	-	-	-	-	-	-	-	-	(653,004)
Total other financing sources (uses)	-	-	-	-	-	-	-	-	314
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	(7,705)	(26,083)	(921)	(911)	(824,050)	(38,155)	3,234	4,527	2,554,072
Cash and investments - ending	\$ 510	\$ 716	\$ -	\$ (2,599)	\$ -	\$ (38,155)	\$ 3,234	\$ 4,527	\$ 3,112,603

NORTHWESTERN SCHOOL CORPORATION
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, OTHER FINANCING SOURCES (USES), AND CASH AND INVESTMENT BALANCES -
 REGULATORY BASIS
 For the Year Ended June 30, 2011

	General	Debt Service	Retirement/ Severance Bond Debt Service	Capital Projects	School Transportation	School Bus Replacement	Rainy Day	School Lunch	Textbook Rental
Cash and investments - beginning	\$ 137,151	\$ 1,425,582	\$ 90,635	\$ 608,462	\$ 195,638	\$ 116,837	\$ 487,900	\$ 135,258	\$ (114,169)
Receipts:									
Local sources	169,634	1,904,809	191,336	2,728,587	1,489,523	156,234	176,034	468,426	101,839
Intermediate sources	57	-	-	-	-	-	-	-	-
State sources	9,467,346	-	-	-	-	-	-	6,299	24,760
Federal sources	-	-	-	-	-	-	-	156,076	-
Other	-	-	-	-	-	-	-	770	-
Total receipts	<u>9,637,037</u>	<u>1,904,809</u>	<u>191,336</u>	<u>2,728,587</u>	<u>1,489,523</u>	<u>156,234</u>	<u>176,034</u>	<u>631,571</u>	<u>126,599</u>
Disbursements:									
Current:									
Instruction	6,644,320	-	-	-	-	-	-	22,485	-
Support services	3,116,441	-	-	1,346,854	1,223,295	152,534	-	9,075	67,981
Noninstructional services	124,097	-	-	-	-	-	-	564,061	-
Facilities acquisition and construction	-	-	-	807,440	-	-	32,274	-	-
Debt services	-	2,014,000	165,760	-	-	-	-	-	-
Nonprogrammed charges	115,055	-	-	-	-	-	231,384	-	-
Total disbursements	<u>9,999,913</u>	<u>2,014,000</u>	<u>165,760</u>	<u>2,154,294</u>	<u>1,223,295</u>	<u>152,534</u>	<u>263,658</u>	<u>595,621</u>	<u>67,981</u>
Excess (deficiency) of receipts over disbursements	<u>(362,876)</u>	<u>(109,191)</u>	<u>25,576</u>	<u>574,293</u>	<u>266,228</u>	<u>3,700</u>	<u>(87,624)</u>	<u>35,950</u>	<u>58,618</u>
Other financing sources (uses):									
Sale of capital assets	649	-	-	-	-	-	-	-	-
Transfers in	490,000	-	-	250,000	-	-	250,000	-	-
Transfers out	(250,000)	-	-	(590,000)	(225,000)	-	-	-	-
Total other financing sources (uses)	<u>240,649</u>	<u>-</u>	<u>-</u>	<u>(340,000)</u>	<u>(225,000)</u>	<u>-</u>	<u>250,000</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	<u>(122,227)</u>	<u>(109,191)</u>	<u>25,576</u>	<u>234,293</u>	<u>41,228</u>	<u>3,700</u>	<u>162,376</u>	<u>35,950</u>	<u>58,618</u>
Cash and investments - ending	<u>\$ 14,924</u>	<u>\$ 1,316,391</u>	<u>\$ 116,211</u>	<u>\$ 842,755</u>	<u>\$ 236,866</u>	<u>\$ 120,537</u>	<u>\$ 650,276</u>	<u>\$ 171,208</u>	<u>\$ (55,551)</u>

NORTHWESTERN SCHOOL CORPORATION
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, OTHER FINANCING SOURCES (USES), AND CASH AND INVESTMENT BALANCES -
 REGULATORY BASIS
 For the Year Ended June 30, 2011
 (Continued)

	Self- Insurance	Levy Excess	Educational License Plates	Cultural Arts	Indiana Next Leadership	I Love To Read Award	Northwestern Fine Arts	Teacher Quality Improvement Program
Cash and investments - beginning	\$ 15,064	\$ 29,637	\$ 94	\$ 1,000	\$ 2,513	\$ 292	\$ 67	\$ 1,866
Receipts:								
Local sources	-	-	-	-	-	-	-	-
Intermediate sources	-	-	-	-	-	-	-	-
State sources	-	-	-	-	-	-	-	31,598
Federal sources	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-
Total receipts	-	-	-	-	-	-	-	31,598
Disbursements:								
Current:								
Instruction	-	-	-	-	-	292	-	23,885
Support services	-	-	-	-	-	-	-	-
Noninstructional services	-	-	-	-	-	-	-	-
Facilities acquisition and construction	-	-	-	-	-	-	-	-
Debt services	-	-	-	-	-	-	-	-
Nonprogrammed charges	-	-	-	-	-	-	-	-
Total disbursements	-	-	-	-	-	292	-	23,885
Excess (deficiency) of receipts over disbursements	-	-	-	-	-	(292)	-	7,713
Other financing sources (uses):								
Sale of capital assets	-	-	-	-	-	-	-	-
Transfers in	-	-	-	-	-	-	-	-
Transfers out	-	-	-	-	-	-	-	-
Total other financing sources (uses)	-	-	-	-	-	-	-	-
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	-	-	-	-	-	(292)	-	7,713
Cash and investments - ending	\$ 15,064	\$ 29,637	\$ 94	\$ 1,000	\$ 2,513	\$ -	\$ 67	\$ 9,579

NORTHWESTERN SCHOOL CORPORATION
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, OTHER FINANCING SOURCES (USES), AND CASH AND INVESTMENT BALANCES -
 REGULATORY BASIS
 For the Year Ended June 30, 2011
 (Continued)

	Indiana Arts Commission	Scholarships and Awards	Non-English Speaking Program	School Technology	Emergency Impact Aid	Mentor Teacher	Title I	Innovative Education
Cash and investments - beginning	\$ 900	\$ 12	\$ 8,211	\$ 3,065	\$ 7,500	\$ 175	\$ (12,305)	\$ 2,985
Receipts:								
Local sources	-	-	-	-	-	-	-	-
Intermediate sources	-	-	-	-	-	-	-	-
State sources	-	-	-	11,563	-	-	-	-
Federal sources	-	-	-	-	-	-	86,653	-
Other	-	-	-	-	-	-	-	-
Total receipts	-	-	-	11,563	-	-	86,653	-
Disbursements:								
Current:								
Instruction	-	-	-	-	-	-	182,478	-
Support services	-	-	-	4,024	-	-	5,649	-
Noninstructional services	-	-	-	-	-	-	-	-
Facilities acquisition and construction	-	-	-	-	-	-	-	-
Debt services	-	-	-	-	-	-	-	-
Nonprogrammed charges	-	-	-	-	-	-	-	-
Total disbursements	-	-	-	4,024	-	-	188,127	-
Excess (deficiency) of receipts over disbursements	-	-	-	7,539	-	-	(101,474)	-
Other financing sources (uses):								
Sale of capital assets	-	-	-	-	-	-	-	-
Transfers in	-	-	-	-	-	-	75,000	-
Transfers out	-	-	-	-	-	-	-	-
Total other financing sources (uses)	-	-	-	-	-	-	75,000	-
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	-	-	-	7,539	-	-	(26,474)	-
Cash and investments - ending	\$ 900	\$ 12	\$ 8,211	\$ 10,604	\$ 7,500	\$ 175	\$ (38,779)	\$ 2,985

NORTHWESTERN SCHOOL CORPORATION
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, OTHER FINANCING SOURCES (USES), AND CASH AND INVESTMENT BALANCES -
 REGULATORY BASIS
 For the Year Ended June 30, 2011
 (Continued)

	Drug Free Schools	Improving Teaching Quality	Title III Limited English	Title I Grants to LEAS	Special Education Part B	Special Education Part B Preschool	Education Jobs	Totals
Cash and investments - beginning	\$ 510	\$ 716	\$ (2,599)	\$ (38,155)	\$ 3,234	\$ 4,527	\$ -	\$ 3,112,603
Receipts:								
Local sources	-	-	-	-	-	-	-	7,386,422
Intermediate sources	-	-	-	-	-	-	-	57
State sources	-	-	-	-	-	-	-	9,541,566
Federal sources	-	-	832	93,384	112,870	-	143,345	593,160
Other	-	-	-	-	-	-	-	770
Total receipts	-	-	832	93,384	112,870	-	143,345	17,521,975
Disbursements:								
Current:								
Instruction	-	16,102	1,804	55,176	53,249	-	143,345	7,143,136
Support services	-	528	-	-	56,610	-	-	5,982,991
Noninstructional services	-	-	-	53	-	-	-	688,211
Facilities acquisition and construction	-	-	-	-	3,802	-	-	843,516
Debt services	-	-	-	-	-	-	-	2,179,760
Nonprogrammed charges	-	-	-	-	-	-	-	346,439
Total disbursements	-	16,630	1,804	55,229	113,661	-	143,345	17,184,053
Excess (deficiency) of receipts over disbursements	-	(16,630)	(972)	38,155	(791)	-	-	337,922
Other financing sources (uses):								
Sale of capital assets	-	-	-	-	-	-	-	649
Transfers in	-	-	-	-	-	-	-	1,065,000
Transfers out	-	-	-	-	-	-	-	(1,065,000)
Total other financing sources (uses)	-	-	-	-	-	-	-	649
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	-	(16,630)	(972)	38,155	(791)	-	-	338,571
Cash and investments - ending	\$ 510	\$ (15,914)	\$ (3,571)	\$ -	\$ 2,443	\$ 4,527	\$ -	\$ 3,451,174

NORTHWESTERN SCHOOL CORPORATION
 SUPPLEMENTARY INFORMATION
 SCHEDULE OF CAPITAL ASSETS
 June 30, 2011

Capital assets are reported at actual or estimated historical cost based on appraisals or deflated current replacement cost. Contributed or donated assets are reported at estimated fair value at the time received.

<u>Primary Government</u>	<u>Ending Balance</u>
Governmental activities:	
Capital assets, not being depreciated:	
Land	\$ 22,610
Buildings	37,611,259
Improvements other than buildings	1,369,734
Machinery and equipment	<u>2,230,200</u>
 Total governmental activities, capital assets not being depreciated	 \$ <u><u>41,233,803</u></u>

NORTHWESTERN SCHOOL CORPORATION
 SUPPLEMENTARY INFORMATION
 SCHEDULE OF LONG-TERM DEBT
 June 30, 2011

The School Corporation has entered into the following debt:

Description of Debt	Ending Principal Balance	Principal and Interest Due Within One Year
Governmental activities:		
Capital leases:		
2005 Northwestern Building Corporation	\$ 17,275,000	\$ 2,003,000
Bonds payable:		
General obligation bonds:		
Retirement/Severance Bonds	<u>1,425,000</u>	<u>171,565</u>
Total governmental activities debt	<u>\$ 18,700,000</u>	<u>\$ 2,174,565</u>

NORTHWESTERN SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS

APPROPRIATIONS

Expenditures in the Debt Service Fund exceeded appropriations for 2009 by \$18,000.

Indiana Code 6-1.1-18-4 states in part: ". . . the proper officers of a political subdivision shall appropriate funds in such a manner that the expenditures for a year do not exceed its budget for that year as finally determined under this article."

REPORTING

The Corporation does not have adequate internal control procedures in place to ensure compliance with the Reporting requirements of the Title I grant. Title I Quarterly Monitoring Reports for the 2009-2010 and 2010-2011 school years were not presented for audit.

34 CFR 80.41(b)(2) states in part: "Each grantee will report program outlays and program income on a cash or accrual basis as prescribed by the awarding agency. . . ."

Political subdivisions are required to comply with all grant agreements, rules, regulations, bulletins, directives, letters, letter rulings, and filing requirements concerning reports and other procedural matters of federal and state agencies, including opinions of the Attorney General of the State of Indiana, and court decisions. Governmental units should file accurate reports required by federal and state agencies. Noncompliance may require corrective action. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

TITLE I SEGREGATION OF PROGRAMS

Title I program expenditures were not segregated into separate funds by program year. This practice made it difficult to determine if the entire proceeds from a specific program year have been properly expended. Failure to maintain the Title I funds in separate funds by program year could lead to inaccurate reporting.

34 CFR 76.730 states:

"A State and a subgrantee shall keep records that fully show:

- (a) The amount of funds under the grant or subgrant;
- (b) (b) How the State or subgrantee uses the funds;
- (c) The total cost of the project;
- (d) The share of that cost provided from other sources; and
- (e) Other records to facilitate an effective audit."

NORTHWESTERN SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS
(Continued)

Political subdivisions are required to comply with all grant agreements, rules, regulations, bulletins, directives, letters, letter rulings, and filing requirements concerning reports and other procedural matters of federal and state agencies, including opinions of the Attorney General of the State of Indiana, and court decisions. Governmental units should file accurate reports required by federal and state agencies. Noncompliance may require corrective action. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

CERTIFIED REPORT NOT FILED

The School Corporation did not file a certified report of compensation of officers and employees (Form 100-R or its equivalent) with the State Board of Accounts for the year 2011.

Indiana Code 5-11-13-1 states in part:

"Every state, county, city, town, township, or school official . . . shall during the month of January of each year prepare, make, and sign a written or printed certified report, correctly and completely showing the names and addresses of each and all officers, employees, and agents . . . and the respective duties and compensation of each, and shall forthwith file said report in the office of the state examiner of the state board of accounts."

OVERDRAWN FUND BALANCES

The Textbook Rental Fund was overdrawn by \$114,169 and \$55,551 for the 2009-2010 and 2010-2011 school years, respectfully.

The fund balance of any fund may not be reduced below zero. Routinely overdrawn funds could be an indicator of serious financial problems which should be investigated by the governmental unit. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

INTERNAL CONTROLS

The controls over the receipting and accounting for the financial activities were insufficient. The Corporation Treasurer is responsible for posting all receipts and reconciling the School Corporation's balances, with no official oversight.

Governmental units should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets and all forms of information processing are necessary for proper internal control. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

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SUPPLEMENTAL AUDIT OF
FEDERAL AWARDS



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
ROOM E418
INDIANAPOLIS, INDIANA 46204-2769

Telephone: (317) 232-2513
Fax: (317) 232-4711
Web Site: www.in.gov/sboa

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

TO: THE OFFICIALS OF THE NORTHWESTERN SCHOOL
CORPORATION, HOWARD COUNTY, INDIANA

Compliance

We have audited the compliance of the Northwestern School Corporation (School Corporation) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the years ended June 30, 2010 and 2011. The School Corporation's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the School Corporation's management. Our responsibility is to express an opinion on the School Corporation's compliance based on our audit.

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

In our opinion, the School Corporation complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the years ended June 30, 2010 and 2011. The results of our auditing procedures also disclosed other instances of noncompliance with those requirements which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as items 2011-2, 2011-3 and 2011-4.

Internal Control Over Compliance

Management of the School Corporation is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the School Corporation's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133
(Continued)

test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the School Corporation's internal control over compliance.

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

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies as described in the accompanying Schedule of Findings and Questioned Costs as items 2011-2, 2011-3, and 2011-4. A significant deficiency in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

The School Corporation's response to the findings identified in our audit is described in the accompanying Corrective Action Plan. We did not audit the School Corporation's response and, accordingly, we express no opinion on the response.

This report is intended solely for the information and use of the School Corporation's management, School Board, others within the entity, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. In accordance with Indiana Code 5-11-5-1, this report is a part of the public records of the State Board of Accounts and of the office examined.

STATE BOARD OF ACCOUNTS

December 21, 2011

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SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

The Schedule of Expenditures of Federal Awards and accompanying notes presented were approved by management of the School Corporation. The schedule and notes are presented as intended by the School Corporation.

NORTHWESTERN SCHOOL CORPORATION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Years Ended June 30, 2010 and 2011

Federal Grantor Agency/Pass-Through Entity Cluster Title/Program Title/Project Title	Federal CFDA Number	Pass-Through Entity (or Other) Identifying Number	Total Federal Awards Expended 06-30-10	Total Federal Awards Expended 06-30-11
U.S. DEPARTMENT OF AGRICULTURE				
Pass-Through Indiana Department of Education				
Child Nutrition Cluster				
School Breakfast Program	10.553	FY 09/10	\$ 17,302	
School Breakfast Program	10.553	FY 10/11		\$ 17,397
National School Lunch Program	10.555	FY 09/10	\$ 140,647	
National School Lunch Program	10.555	FY 10/11	-	167,798
Total for cluster			<u>157,949</u>	<u>185,195</u>
U.S. DEPARTMENT OF EDUCATION				
Pass-Through Indiana Department of Education				
Title I, Part A Cluster				
Title I Grants to Local Educational Agencies				
08/09	84.010	09-3470	86,036	-
09/10		10-3470	215,699	80,036
10/11		11-3470	-	108,091
Total for program			<u>301,735</u>	<u>188,127</u>
ARRA - Title I Grants to Local Educational Agencies, Recovery Act				
08/09	84.389	09-3470	84,849	-
10/11		11-3470	-	55,230
Total for program			<u>84,849</u>	<u>55,230</u>
Total for cluster			<u>386,584</u>	<u>243,357</u>
Pass-Through Kokomo-Center Township Consolidated School Corporation				
Special Education Cluster (IDEA)				
ARRA - Special Education - Grants to States, Recovery Act				
09/10	84.391	FY 10	147,476	-
10/11		FY 11	-	113,659
Total for Cluster			<u>147,476</u>	<u>113,659</u>
Pass-Through Indiana Department of Education				
State Fiscal Stabilization Fund Cluster				
State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act				
09/10	84.394	FY 10	1,156,431	-
Total for program			<u>1,156,431</u>	<u>-</u>
Pass-Through West Lafayette Community School Corporation				
Migrant Education - State Grant Program				
FY 06-30-09	84.011	FY 06-30-09	2,407	-
FY 06-30-10		FY 06-30-10	-	1,804
Total for program			<u>2,407</u>	<u>1,804</u>
Pass-Through Indiana Department of Workforce Development				
Safe and Drug-Free Schools and Communities - State Grants				
Drug-Free 2008-2009	84.186	09-3470	7,705	-
Drug-Free 2009-2010		10-3470	2,000	-
Total for program			<u>9,705</u>	<u>-</u>
Pass-Through Indiana Department of Education				
State Grants for Innovative Programs				
Title V 2007-2008				
	84.298	FY 08	2,034	-
Total for program			<u>2,034</u>	<u>-</u>
Improving Teacher Quality State Grants				
FY 06-30-07	84.367	FY 07	921	-
FY 06-30-09		FY 09	26,800	-
FY 06-30-10		FY 10	29,284	716
FY 06-30-11		FY 11	-	15,914
Total for program			<u>57,005</u>	<u>16,630</u>
ARRA - Education Jobs Fund				
10/11	84.410	FY 11	-	143,346
Total for program			<u>-</u>	<u>143,346</u>
Total for federal grantor agency			<u>1,761,642</u>	<u>518,796</u>
Total federal awards expended			<u>\$ 1,919,591</u>	<u>\$ 703,991</u>

The accompanying notes are an integral part of the Schedule of Expenditures of Federal Awards.

NORTHWESTERN SCHOOL CORPORATION
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Note 1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Northwestern School Corporation (School Corporation) and is presented in accordance with the cash and investment basis of accounting used in the preparation of the financial statement. Accordingly, the amount of federal awards expended is based on when the disbursement related to the award occurs except when the federal award is received on a reimbursement basis. In these instances the federal awards are considered expended when the reimbursement is received.

Circular A-133 requires an annual audit of nonfederal entities expending a total amount of federal awards equal to or in excess of \$500,000 in any fiscal year unless by constitution or statute a less frequent audit is required. In accordance with Indiana Code (IC 5-11-1 et seq.), audits of school corporations shall be conducted biennially. Such audits shall include both years within the biennial period.

Note 2. Noncash Assistance

The School Corporation expended the following amount of noncash assistance for the years ending June 30, 2010 and 2011. This noncash assistance is also included in the federal expenditures presented in the schedule.

Program Title	Federal CFDA Number	2010	2011
National School Lunch Program	10.555	\$ 21,944	\$ 29,120

NORTHWESTERN SCHOOL CORPORATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section I – Summary of Auditor's Results

Financial Statement:

Type of auditor's report issued:	Unqualified
Internal control over financial reporting:	
Material weaknesses identified?	yes
Significant deficiency identified?	none reported
Noncompliance material to financial statement noted?	no

Federal Awards:

Internal control over major programs:	
Material weaknesses identified?	no
Significant deficiencies identified?	yes
Type of auditor's report issued on compliance for major programs:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?	yes

Identification of Major Programs:

<u>Name of Federal Program or Cluster</u>
Child Nutrition Cluster
Title I, Part A Cluster
State Fiscal Stabilization Fund Cluster

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee?	no
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Section II – Financial Statement Findings

FINDING 2011-1 - INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING

We noted deficiencies in the internal control system of the School Corporation related to financial transactions and reporting. We believe the following deficiencies constitute material weaknesses:

Lack of Segregation of Duties: Control activities should be selected and developed at various levels of the School Corporation to reduce risks to achievement of financial reporting objectives. The School Corporation has not separated incompatible activities related to receipts and cash and investment balances. The failure to establish these controls could enable material mis-statements or irregularities to occur undetected.

NORTHWESTERN SCHOOL CORPORATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

Governmental units should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets and all forms of information processing are necessary for proper internal control. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

Section III – Federal Award Findings and Questioned Costs

FINDING 2011-2 - REPORTING

Federal Agency: U.S. Department of Education
Federal Program: Title I, Part A Cluster
CFDA Numbers: 84.010, 84.389
Federal Award Number and Year: FY 09/10, FY 10/11
Pass-Through Entity: Indiana Department of Education

The Corporation does not have adequate internal control procedures in place to ensure compliance with the Reporting requirements of the Title I grant. Title I Quarterly Monitoring Reports for the 2009/2010 and 2010/2011 years were not presented for audit.

34 CFR80.41(b)(2) states in part: "Each grantee will report program outlays and program income on a cash or accrual basis as prescribed by the awarding agency."

Failure to comply with federal program requirements and the requirements of the state pass-through agency could cause the School Corporation to forfeit the federal funds already received and jeopardize approval of future funding under federal assistance programs.

We recommended that the School Corporation design and implement internal control procedures that will ensure the timely filing of accurate reports.

FINDING 2011-3 - TITLE I SEGREGATION OF PROGRAMS

Federal Agency: U.S. Department of Education
Federal Program: Title I, Part A Cluster
CFDA Number: 84.010, 84.389
Federal Award Number and Year: FY 09/10, FY 10/11
Pass-Through Entity: Indiana Department of Education

Title I program expenditures were not segregated into separate funds by program year. This practice makes it difficult to determine if the entire proceeds from a specific program year have been expended in accordance with the grant award requirements. Failure to maintain the Title I funds in separate funds by program year could lead to inaccurate reporting.

NORTHWESTERN SCHOOL CORPORATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

34 CFR 76.730 states:

"A State and a subgrantee shall keep records that fully show:

- (a) The amount of funds under the grant or subgrant;
- (b) How the State or subgrantee uses the funds;
- (c) The total cost of the project;
- (d) The share of that cost provided from other sources; and
- (e) Other records to facilitate an effective audit."

We recommended the proceeds and expenditures from all Title I grants be accounted for in separate funds by program year.

FINDING 2011-4 - INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING

Federal Agency: U.S. Department of Education

Pass-Through Entity: Indiana Department of Education

Federal Programs: Title I, Part A Cluster and State Fiscal Stabilization Fund Cluster

CFDA Numbers: 84.010, 84.389, 84.394

The financial records for federal funds received as a part of the Title I, Part A Cluster and State Fiscal Stabilization Fund - Education State Grants, Recovery Act programs are maintained in the School Corporation's business office. Currently, due to the limited personnel the School Corporation has not separated incompatible activities related to all areas of the financial statement. The failure to establish these controls could enable material misstatements to occur undetected.

Circular A133, Subpart C, section .300 states in part:

"The auditee shall: . . . (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs."

We recommended the School Corporation develop internal control procedures that properly segregate accounting activities in the business office.

NORTHWESTERN SCHOOL CORPORATION
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

No matters are reportable.

January 17, 2012

Corrective Action Plan

Section II-Financial Statement Findings

FINDING 2011-01, INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING

Lack of Segregation of Duties: The administration office will review office procedures and attempt to assign duties so there will be as much segregation of the incompatible duties as is practical. However, the school corporation is a small unit and management has determined that the costs associated with employing additional staff in order to segregate duties effectively would outweigh the benefits of a stronger internal control. Management, along with the School Board of Trustees, acknowledges and assumes the risk inherent with the current design of their administration office,

Section III- Federal Award Findings and Questioned Costs

FINDING 2011-02. REPORTING

Lack of Adequate Internal Control Procedures: The administration office will review office procedures to ensure compliance with the reporting requirements of the Title I grant. Reports will be printed out after submitting the information on-line and kept in the Title I grant file.

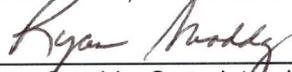
FINDING 2011-03, TITLE I SEGREGATION OF PROGRAMS

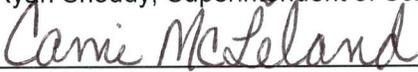
Lack of Adequate Internal Control Procedures: The administration office will review office procedures to ensure compliance with the Title I separation of funds by program year. Title I grant funds will be reviewed and separated, where possible, into their respective program years.

FINDING 2011-04, INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING

Lack of Segregation of Duties: The administration office will review office procedures and attempt to assign duties so there will be as much segregation of the incompatible duties as is practical. However, the school corporation is a small unit and management has determined that the costs associated with employing additional staff in order to segregate duties effectively would outweigh the benefits of a stronger internal control. Management, along with the School Board of Trustees, acknowledges and assumes the risk inherent with the current design of their administration office,


Howard Eller, President of School Board


Ryan Snoddy, Superintendent of Schools


Cami McLeland, Treasurer



NORTHWESTERN SCHOOL CORPORATION
EXIT CONFERENCE

The contents of this report were discussed on January 17, 2012, with Ryan Snoddy, Superintendent of Schools; Cami J. McLeland, Treasurer; and Howard Eller, President of the School Board.