

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, 2011 to June 30, 2013



FILED
04/04/2014

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Cami J. McLeland	07-01-11 to 02-21-14
Superintendent of Schools	Ryan Snoddy	07-01-11 to 06-30-14
President of the School Board	Howard Eller Bryan Alexander Todd Moser	07-01-11 to 12-31-12 01-01-13 to 12-31-13 01-01-14 to 12-31-14



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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statement

We have audited the accompanying financial statement of the Northwestern School Corporation (School Corporation), which comprises the financial position and results of operations for the period of July 1, 2011 to June 30, 2013, and the related notes to the financial statement.

Management's Responsibility for the Financial Statement

Management is responsible for the preparation and fair presentation of this financial statement in accordance with the financial reporting provisions of the Indiana State Board of Accounts as allowed by state statute (IC 5-11-1-6). Management is responsible for and has determined that the regulatory basis of accounting, as established by the Indiana State Board of Accounts, is an acceptable basis of presentation. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of a financial statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 statement is free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the School Corporation's preparation and fair presentation of the financial statement in order to design 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. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.

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

INDEPENDENT AUDITOR'S REPORT
(Continued)

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

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

The effects on the financial statement 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 presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the *Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles* paragraph, the financial statement referred to above does not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position and results of operations of the School Corporation for the period of July 1, 2011 to June 30, 2013.

Opinion on Regulatory Basis of Accounting

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 period of July 1, 2011 to June 30, 2013, in accordance with the financial reporting provisions of the Indiana State Board of Accounts described in Note 1.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated February 26, 2014, 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* in considering the School Corporation's internal control over financial reporting and compliance.

Accompanying Information

Supplementary Information

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 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statement. The information has been subjected to the auditing procedures applied in the audit of the financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statement or to the financial statement itself, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated, in all material respects, in relation to the financial statement taken as a whole.

INDEPENDENT AUDITOR'S REPORT
(Continued)

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 Long-Term Debt, and Schedule of Capital Assets, as listed in the Table of Contents, are presented for additional analysis and are not required parts of the financial statement. They 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.


Paul D. Joyce, CPA
State Examiner

February 26, 2014



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INDEPENDENT AUDITOR'S 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, 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, the financial statement of the Northwestern School Corporation (School Corporation), which comprises the financial position and results of operations for the period of July 1, 2011 to June 30, 2013, and the related notes to the financial statement, and have issued our report thereon dated February 26, 2014, wherein we noted the School Corporation followed accounting practices the Indiana State Board of Accounts prescribes rather than accounting principles generally accepted in the United States of America.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statement, we considered the School Corporation's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the School Corporation's internal control.

Our consideration of the internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not 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 items 2013-001 and 2013-002 to be material weaknesses.

INDEPENDENT AUDITOR'S 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
(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 an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying Schedule of Findings and Questioned Costs as item 2013-002.

Northwestern School Corporation's Response to Findings

The School Corporation's response to the findings identified in our audit is described in the accompanying Corrective Action Plan. The School Corporation's response was not subjected to the auditing procedures applied in the audit of the financial statement and, accordingly, we express no opinion on it.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the School Corporation's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School Corporation's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.


Paul D. Joyce, CPA
State Examiner

February 26, 2014

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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, 2012 and 2013

	Cash and Investments 07-01-11	Receipts	Disbursements	Other Financing Sources (Uses)	Cash and Investments 06-30-12	Receipts	Disbursements	Other Financing Sources (Uses)	Cash and Investments 06-30-13
General	\$ 14,924	\$ 9,744,935	\$ 10,115,435	\$ 386,347	\$ 30,771	\$ 9,910,110	\$ 9,868,748	\$ (25,000)	\$ 47,133
Debt Service	1,316,391	2,013,660	2,003,000	-	1,327,051	2,491,911	2,340,674	-	1,478,288
Retirement/Severance Bond Debt Service	116,211	167,180	171,565	-	111,826	158,516	161,129	-	109,213
Capital Projects	842,755	2,446,144	2,433,344	(525,000)	330,555	2,422,970	2,512,172	300,000	541,353
School Transportation	236,866	1,406,245	1,221,497	(75,000)	346,614	1,456,306	1,217,305	(234,000)	351,615
School Bus Replacement	120,537	155,607	-	-	276,144	134,939	142,991	-	268,092
Rainy Day	650,276	-	79,296	225,000	795,980	65,000	181,000	(41,000)	638,980
Construction	-	-	-	32,600	32,600	-	2,319	-	30,281
School Lunch	171,208	712,880	628,995	-	255,093	731,356	687,878	-	298,571
Textbook Rental	(55,551)	135,489	80,600	-	(662)	131,716	79,428	-	51,626
Self-Insurance	15,064	-	4,000	-	11,064	-	4,000	-	7,064
Levy Excess	29,637	-	-	-	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	-	-	-	-	-	-
NW Boosters Fine Arts Donation	67	-	-	-	67	-	-	-	67
Teacher Quality Improvement Program	9,579	30,733	10,312	-	30,000	26,074	49,104	-	6,970
Education Technology	-	-	-	-	-	102,596	93,600	-	8,996
Indiana Arts Commission	900	-	-	-	900	-	-	-	900
Scholarships and Awards	12	-	-	-	12	-	-	-	12
Non-English Speaking Programs P.L. 273-1999	8,211	1,147	4,562	-	4,796	-	-	-	4,796
School Technology	10,604	14,476	20,772	-	4,308	11,206	11,611	-	3,903
Emergency Impact Aid	7,500	-	7,500	-	-	-	-	-	-
Mentor Teacher	175	-	-	-	175	-	-	-	175
Title I 10/11	(38,779)	131,501	146,023	-	(53,301)	-	-	-	(53,301)
Title I 11/12	-	116,762	76,313	-	40,449	104,436	181,288	(4)	(36,407)
Title I 12/13	-	-	-	-	-	96,987	27,933	-	69,054
Innovative Education Program Strategies Title V (Part A)	2,985	-	2,985	-	-	-	-	-	-
IDEA	-	68,486	68,591	-	(105)	-	-	-	(105)
Drug Free Schools	510	6,512	7,022	-	-	-	-	-	-
Improving Teaching Quality, No Child Left, Title II, Part A	(15,914)	55,266	29,586	-	9,766	46,243	22,766	-	33,243
Title III, Language Instruction	(3,571)	-	(3,571)	-	-	-	-	-	-
Title I - Grants to LEAs	-	-	169	-	(169)	-	-	-	(169)
Special Education - Part B	2,443	51,538	53,981	-	-	-	1,412	4	(1,408)
Special Education - Part B - Preschool	4,527	3,906	8,433	-	-	-	-	-	-
Education Jobs	-	-	-	-	-	171,046	171,046	-	-
Clearing	76,535	3,107,297	3,120,911	-	62,921	2,409,593	2,376,180	-	96,334
Totals	\$ 3,527,709	\$ 20,369,764	\$ 20,293,834	\$ 43,947	\$ 3,647,586	\$ 20,471,005	\$ 20,133,584	\$ -	\$ 3,985,007

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.

B. Basis of Accounting

The financial statement is reported on a regulatory basis of accounting prescribed by the Indiana 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 basis of accounting involves the reporting of only cash and investments and the changes therein resulting from cash inflows (receipts) and cash outflows (disbursements) reported in the period in which they occurred.

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.

NORTHWESTERN SCHOOL CORPORATION
NOTES TO FINANCIAL STATEMENT
(Continued)

State sources include distributions from the State of Indiana and are 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.

Federal sources include distributions from the federal government and are 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:

Proceeds of long-term debt which includes money received in relation to the issuance of bonds or other long-term debt issues.

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

NORTHWESTERN SCHOOL CORPORATION
NOTES TO FINANCIAL STATEMENT
(Continued)

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.

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 or highway use taxes are received 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.

NORTHWESTERN SCHOOL CORPORATION
NOTES TO FINANCIAL STATEMENT
(Continued)

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.

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.

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.

Note 7. Cash Balance Deficits

The financial statement contains some funds with deficits in cash. This is a result of the reimbursement for grant expenditures made by the School Corporation that were not received by June 30, 2012 and 2013.

Note 8. Holding Corporation

The School Corporation has entered into a capital lease with 2005 Northwestern Building Corporation (the lessor). The lessor was organized as a not-for-profit corporation pursuant to state statute for the purpose of financing and constructing or reconstructing facilities for lease to the School Corporation. The lessor has been determined to be a related party of the School Corporation. Lease payments during the years 2012 and 2013 totaled \$2,003,000 and \$2,158,700, respectively.

NORTHWESTERN SCHOOL CORPORATION
NOTES TO FINANCIAL STATEMENT
(Continued)

Note 9. *Other Postemployment Benefits*

Certified teachers who retired at the conclusion of the 2012-2013 school year were provided the following benefits: severance benefits of \$7,000 per year for three years. These benefits pose a liability to the School Corporation for this year and in future years. Information regarding the benefits can be obtained by contacting the School Corporation.

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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 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, 2012

	General	Debt Service	Retirement/ Severance Bond Debt Service	Capital Projects	School Transportation	School Bus Replacement	Rainy Day	Construction	School Lunch	Textbook Rental
Cash and investments - beginning	\$ 14,924	\$ 1,316,391	\$ 116,211	\$ 842,755	\$ 236,866	\$ 120,537	\$ 650,276	\$ -	\$ 171,208	\$ (55,551)
Receipts:										
Local sources	162,689	2,013,660	167,180	2,446,144	1,406,245	155,607	-	-	535,345	102,594
Intermediate sources	114	-	-	-	-	-	-	-	-	-
State sources	9,582,032	-	-	-	-	-	-	-	6,157	32,895
Federal sources	-	-	-	-	-	-	-	-	170,368	-
Other	100	-	-	-	-	-	-	-	1,010	-
Total receipts	9,744,935	2,013,660	167,180	2,446,144	1,406,245	155,607	-	-	712,880	135,489
Disbursements:										
Current:										
Instruction	6,938,267	-	-	-	-	-	-	-	20,200	-
Support services	3,052,531	-	-	1,428,282	1,221,497	-	75,000	-	15,027	80,600
Noninstructional services	124,637	-	-	-	-	-	-	-	593,768	-
Facilities acquisition and construction	-	-	-	1,005,062	-	-	4,296	-	-	-
Debt services	-	2,003,000	171,565	-	-	-	-	-	-	-
Nonprogrammed charges	-	-	-	-	-	-	-	-	-	-
Total disbursements	10,115,435	2,003,000	171,565	2,433,344	1,221,497	-	79,296	-	628,995	80,600
Excess (deficiency) of receipts over disbursements	(370,500)	10,660	(4,385)	12,800	184,748	155,607	(79,296)	-	83,885	54,889
Other financing sources (uses):										
Proceeds of long-term debt	-	-	-	-	-	-	-	32,600	-	-
Sale of capital assets	11,347	-	-	-	-	-	-	-	-	-
Transfers in	375,000	-	-	-	-	-	225,000	-	-	-
Transfers out	-	-	-	(525,000)	(75,000)	-	-	-	-	-
Total other financing sources (uses)	386,347	-	-	(525,000)	(75,000)	-	225,000	32,600	-	-
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	15,847	10,660	(4,385)	(512,200)	109,748	155,607	145,704	32,600	83,885	54,889
Cash and investments - ending	\$ 30,771	\$ 1,327,051	\$ 111,826	\$ 330,555	\$ 346,614	\$ 276,144	\$ 795,980	\$ 32,600	\$ 255,093	\$ (662)

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, 2012
 (Continued)

	Self- Insurance	Levy Excess	Educational License Plates	Cultural Arts	Indiana Next Leadership	NW Boosters Fine Arts Donation	Teacher Quality Improvement Program	Education Technology	Indiana Arts Commission	Scholarships and Awards
Cash and investments - beginning	\$ 15,064	\$ 29,637	\$ 94	\$ 1,000	\$ 2,513	\$ 67	\$ 9,579	\$ -	\$ 900	\$ 12
Receipts:										
Local sources	-	-	-	-	-	-	-	-	-	-
Intermediate sources	-	-	-	-	-	-	-	-	-	-
State sources	-	-	-	-	-	-	30,733	-	-	-
Federal sources	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Total receipts	-	-	-	-	-	-	30,733	-	-	-
Disbursements:										
Current:										
Instruction	-	-	-	-	-	-	10,312	-	-	-
Support services	4,000	-	-	-	2,513	-	-	-	-	-
Noninstructional services	-	-	-	-	-	-	-	-	-	-
Facilities acquisition and construction	-	-	-	-	-	-	-	-	-	-
Debt services	-	-	-	-	-	-	-	-	-	-
Nonprogrammed charges	-	-	-	-	-	-	-	-	-	-
Total disbursements	4,000	-	-	-	2,513	-	10,312	-	-	-
Excess (deficiency) of receipts over disbursements	(4,000)	-	-	-	(2,513)	-	20,421	-	-	-
Other financing sources (uses):										
Proceeds of long-term debt	-	-	-	-	-	-	-	-	-	-
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	(4,000)	-	-	-	(2,513)	-	20,421	-	-	-
Cash and investments - ending	\$ 11,064	\$ 29,637	\$ 94	\$ 1,000	\$ -	\$ 67	\$ 30,000	\$ -	\$ 900	\$ 12

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, 2012
 (Continued)

	Non-English Speaking Programs P.L. 273-1999	School Technology	Emergency Impact Aid	Mentor Teacher	Title I 10/11	Title I 11/12	Title I 12/13	Innovative Education Program Strategies Title V (Part A)	IDEA
Cash and investments - beginning	\$ 8,211	\$ 10,604	\$ 7,500	\$ 175	\$ (38,779)	\$ -	\$ -	\$ 2,985	\$ -
Receipts:									
Local sources	-	-	-	-	-	-	-	-	-
Intermediate sources	-	-	-	-	-	-	-	-	-
State sources	1,147	14,476	-	-	-	-	-	-	-
Federal sources	-	-	-	-	131,501	116,762	-	-	68,486
Other	-	-	-	-	-	-	-	-	-
Total receipts	1,147	14,476	-	-	131,501	116,762	-	-	68,486
Disbursements:									
Current:									
Instruction	4,562	-	-	-	142,192	73,721	-	-	-
Support services	-	20,772	7,500	-	3,831	2,592	-	2,985	64,441
Noninstructional services	-	-	-	-	-	-	-	-	-
Facilities acquisition and construction	-	-	-	-	-	-	-	-	4,150
Debt services	-	-	-	-	-	-	-	-	-
Nonprogrammed charges	-	-	-	-	-	-	-	-	-
Total disbursements	4,562	20,772	7,500	-	146,023	76,313	-	2,985	68,591
Excess (deficiency) of receipts over disbursements	(3,415)	(6,296)	(7,500)	-	(14,522)	40,449	-	(2,985)	(105)
Other financing sources (uses):									
Proceeds of long-term debt	-	-	-	-	-	-	-	-	-
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	(3,415)	(6,296)	(7,500)	-	(14,522)	40,449	-	(2,985)	(105)
Cash and investments - ending	\$ 4,796	\$ 4,308	\$ -	\$ 175	\$ (53,301)	\$ 40,449	\$ -	\$ -	\$ (105)

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, 2012
 (Continued)

	Drug Free Schools	Improving Teaching Quality, No Child Left, Title II, Part A	Title III, Language Instruction	Title I - Grants to LEAs	Special Education - Part B	Special Education - Part B - Preschool	Education Jobs	Clearing	Totals
Cash and investments - beginning	\$ 510	\$ (15,914)	\$ (3,571)	\$ -	\$ 2,443	\$ 4,527	\$ -	\$ 76,535	\$ 3,527,709
Receipts:									
Local sources	-	-	-	-	-	-	-	-	6,989,464
Intermediate sources	-	-	-	-	-	-	-	-	114
State sources	-	-	-	-	-	-	-	-	9,667,440
Federal sources	6,512	55,266	-	-	51,538	3,906	-	-	604,339
Other	-	-	-	-	-	-	-	3,107,297	3,108,407
Total receipts	6,512	55,266	-	-	51,538	3,906	-	3,107,297	20,369,764
Disbursements:									
Current:									
Instruction	7,022	29,586	(3,571)	169	72,939	8,433	-	-	7,303,832
Support services	-	-	-	-	-	-	-	-	5,981,571
Noninstructional services	-	-	-	-	-	-	-	-	718,405
Facilities acquisition and construction	-	-	-	-	(18,958)	-	-	-	994,550
Debt services	-	-	-	-	-	-	-	-	2,174,565
Nonprogrammed charges	-	-	-	-	-	-	-	3,120,911	3,120,911
Total disbursements	7,022	29,586	(3,571)	169	53,981	8,433	-	3,120,911	20,293,834
Excess (deficiency) of receipts over disbursements	(510)	25,680	3,571	(169)	(2,443)	(4,527)	-	(13,614)	75,930
Other financing sources (uses):									
Proceeds of long-term debt	-	-	-	-	-	-	-	-	32,600
Sale of capital assets	-	-	-	-	-	-	-	-	11,347
Transfers in	-	-	-	-	-	-	-	-	600,000
Transfers out	-	-	-	-	-	-	-	-	(600,000)
Total other financing sources (uses)	-	-	-	-	-	-	-	-	43,947
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	(510)	25,680	3,571	(169)	(2,443)	(4,527)	-	(13,614)	119,877
Cash and investments - ending	\$ -	\$ 9,766	\$ -	\$ (169)	\$ -	\$ -	\$ -	\$ 62,921	\$ 3,647,586

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, 2013

	General	Debt Service	Retirement/ Severance Bond Debt Service	Capital Projects	School Transportation	School Bus Replacement	Rainy Day	Construction	School Lunch	Textbook Rental
Cash and investments - beginning	\$ 30,771	\$ 1,327,051	\$ 111,826	\$ 330,555	\$ 346,614	\$ 276,144	\$ 795,980	\$ 32,600	\$ 255,093	\$ (662)
Receipts:										
Local sources	160,775	2,491,911	158,516	2,419,241	1,456,306	134,939	65,000	-	522,735	93,103
Intermediate sources	171	-	-	-	-	-	-	-	-	-
State sources	9,749,064	-	-	-	-	-	-	-	6,486	38,613
Federal sources	-	-	-	-	-	-	-	-	201,300	-
Other	100	-	-	3,729	-	-	-	-	835	-
Total receipts	9,910,110	2,491,911	158,516	2,422,970	1,456,306	134,939	65,000	-	731,356	131,716
Disbursements:										
Current:										
Instruction	6,790,353	-	-	-	-	-	170,000	-	22,837	-
Support services	2,954,388	-	-	1,523,750	1,217,305	142,991	11,000	2,319	19,380	79,428
Noninstructional services	124,007	-	-	-	-	-	-	-	645,661	-
Facilities acquisition and construction	-	-	-	988,422	-	-	-	-	-	-
Debt services	-	2,340,674	161,129	-	-	-	-	-	-	-
Nonprogrammed charges	-	-	-	-	-	-	-	-	-	-
Total disbursements	9,868,748	2,340,674	161,129	2,512,172	1,217,305	142,991	181,000	2,319	687,878	79,428
Excess (deficiency) of receipts over disbursements	41,362	151,237	(2,613)	(89,202)	239,001	(8,052)	(116,000)	(2,319)	43,478	52,288
Other financing sources (uses):										
Proceeds of long-term debt	-	-	-	-	-	-	-	-	-	-
Sale of capital assets	-	-	-	-	-	-	-	-	-	-
Transfers in	350,000	-	-	375,000	-	-	309,000	-	-	-
Transfers out	(375,000)	-	-	(75,000)	(234,000)	-	(350,000)	-	-	-
Total other financing sources (uses)	(25,000)	-	-	300,000	(234,000)	-	(41,000)	-	-	-
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	16,362	151,237	(2,613)	210,798	5,001	(8,052)	(157,000)	(2,319)	43,478	52,288
Cash and investments - ending	\$ 47,133	\$ 1,478,288	\$ 109,213	\$ 541,353	\$ 351,615	\$ 268,092	\$ 638,980	\$ 30,281	\$ 298,571	\$ 51,626

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, 2013
 (Continued)

	Self- Insurance	Levy Excess	Educational License Plates	Cultural Arts	Indiana Next Leadership	NW Boosters Fine Arts Donation	Teacher Quality Improvement Program	Education Technology	Indiana Arts Commission	Scholarships and Awards
Cash and investments - beginning	\$ 11,064	\$ 29,637	\$ 94	\$ 1,000	\$ -	\$ 67	\$ 30,000	\$ -	\$ 900	\$ 12
Receipts:										
Local sources	-	-	-	-	-	-	-	-	-	-
Intermediate sources	-	-	-	-	-	-	-	-	-	-
State sources	-	-	-	-	-	-	26,074	102,596	-	-
Federal sources	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Total receipts	-	-	-	-	-	-	26,074	102,596	-	-
Disbursements:										
Current:										
Instruction	-	-	-	1,000	-	-	49,104	-	-	-
Support services	4,000	-	-	-	-	-	-	93,600	-	-
Noninstructional services	-	-	-	-	-	-	-	-	-	-
Facilities acquisition and construction	-	-	-	-	-	-	-	-	-	-
Debt services	-	-	-	-	-	-	-	-	-	-
Nonprogrammed charges	-	-	-	-	-	-	-	-	-	-
Total disbursements	4,000	-	-	1,000	-	-	49,104	93,600	-	-
Excess (deficiency) of receipts over disbursements	(4,000)	-	-	(1,000)	-	-	(23,030)	8,996	-	-
Other financing sources (uses):										
Proceeds of long-term debt	-	-	-	-	-	-	-	-	-	-
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	(4,000)	-	-	(1,000)	-	-	(23,030)	8,996	-	-
Cash and investments - ending	\$ 7,064	\$ 29,637	\$ 94	\$ -	\$ -	\$ 67	\$ 6,970	\$ 8,996	\$ 900	\$ 12

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, 2013
 (Continued)

	Non-English Speaking Programs P.L. 273-1999	School Technology	Emergency Impact Aid	Mentor Teacher	Title I 10/11	Title I 11/12	Title I 12/13	Innovative Education Program Strategies Title V (Part A)	IDEA
Cash and investments - beginning	\$ 4,796	\$ 4,308	\$ -	\$ 175	\$ (53,301)	\$ 40,449	\$ -	\$ -	\$ (105)
Receipts:									
Local sources	-	-	-	-	-	-	-	-	-
Intermediate sources	-	-	-	-	-	-	-	-	-
State sources	-	11,206	-	-	-	-	-	-	-
Federal sources	-	-	-	-	-	104,436	96,987	-	-
Other	-	-	-	-	-	-	-	-	-
Total receipts	-	11,206	-	-	-	104,436	96,987	-	-
Disbursements:									
Current:									
Instruction	-	-	-	-	-	180,759	27,119	-	-
Support services	-	11,611	-	-	-	529	814	-	-
Noninstructional services	-	-	-	-	-	-	-	-	-
Facilities acquisition and construction	-	-	-	-	-	-	-	-	-
Debt services	-	-	-	-	-	-	-	-	-
Nonprogrammed charges	-	-	-	-	-	-	-	-	-
Total disbursements	-	11,611	-	-	-	181,288	27,933	-	-
Excess (deficiency) of receipts over disbursements	-	(405)	-	-	-	(76,852)	69,054	-	-
Other financing sources (uses):									
Proceeds of long-term debt	-	-	-	-	-	-	-	-	-
Sale of capital assets	-	-	-	-	-	-	-	-	-
Transfers in	-	-	-	-	-	-	-	-	-
Transfers out	-	-	-	-	-	(4)	-	-	-
Total other financing sources (uses)	-	-	-	-	-	(4)	-	-	-
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	-	(405)	-	-	-	(76,856)	69,054	-	-
Cash and investments - ending	\$ 4,796	\$ 3,903	\$ -	\$ 175	\$ (53,301)	\$ (36,407)	\$ 69,054	\$ -	\$ (105)

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, 2013
 (Continued)

	Drug Free Schools	Improving Teaching Quality, No Child Left, Title II, Part A	Title III, Language Instruction	Title I - Grants to LEAs	Special Education - Part B	Special Education - Part B - Preschool	Education Jobs	Clearing	Totals
Cash and investments - beginning	\$ -	\$ 9,766	\$ -	\$ (169)	\$ -	\$ -	\$ -	\$ 62,921	\$ 3,647,586
Receipts:									
Local sources	-	-	-	-	-	-	-	-	7,502,526
Intermediate sources	-	-	-	-	-	-	-	-	171
State sources	-	-	-	-	-	-	-	-	9,934,039
Federal sources	-	46,243	-	-	-	-	171,046	-	620,012
Other	-	-	-	-	-	-	-	2,409,593	2,414,257
Total receipts	-	46,243	-	-	-	-	171,046	2,409,593	20,471,005
Disbursements:									
Current:									
Instruction	-	22,766	-	-	1,412	-	171,046	-	7,436,396
Support services	-	-	-	-	-	-	-	-	6,061,115
Noninstructional services	-	-	-	-	-	-	-	-	769,668
Facilities acquisition and construction	-	-	-	-	-	-	-	-	988,422
Debt services	-	-	-	-	-	-	-	-	2,501,803
Nonprogrammed charges	-	-	-	-	-	-	-	2,376,180	2,376,180
Total disbursements	-	22,766	-	-	1,412	-	171,046	2,376,180	20,133,584
Excess (deficiency) of receipts over disbursements	-	23,477	-	-	(1,412)	-	-	33,413	337,421
Other financing sources (uses):									
Proceeds of long-term debt	-	-	-	-	-	-	-	-	-
Sale of capital assets	-	-	-	-	-	-	-	-	-
Transfers in	-	-	-	-	4	-	-	-	1,034,004
Transfers out	-	-	-	-	-	-	-	-	(1,034,004)
Total other financing sources (uses)	-	-	-	-	4	-	-	-	-
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	-	23,477	-	-	(1,408)	-	-	33,413	337,421
Cash and investments - ending	\$ -	\$ 33,243	\$ -	\$ (169)	\$ (1,408)	\$ -	\$ -	\$ 96,334	\$ 3,985,007

NORTHWESTERN SCHOOL CORPORATION
 SUPPLEMENTARY INFORMATION
 SCHEDULE OF LONG-TERM DEBT
 June 30, 2013

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	\$ 15,035,000	\$ 1,992,000
Wind Turbine Lease	1,828,500	166,500
Bonds payable:		
Retirement/Severance Bonds	<u>1,245,000</u>	<u>155,599</u>
Total governmental activities debt	<u>\$ 18,108,500</u>	<u>\$ 2,314,099</u>

NORTHWESTERN SCHOOL CORPORATION
 SUPPLEMENTARY INFORMATION
 SCHEDULE OF CAPITAL ASSETS
 June 30, 2013

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	3,369,734
Machinery, equipment, and vehicles	<u>2,221,282</u>
 Total governmental activities, capital assets not being depreciated	 <u>\$ 43,224,885</u>

NORTHWESTERN SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS

APPROPRIATIONS

The records presented for audit indicated the following expenditures in excess of budgeted appropriations:

Fund	Years	Excess Amount Expended
General	2011	\$ 159,136
General	2012	12,577

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."

PAYROLL DEDUCTIONS

Amounts withheld from some employees' salaries as well as the employer's share for Annuities and Roth IRA's payable to TD Ameritrade and administered by McCready and Keene, Inc., were paid late on several different occasions. The dates of the corresponding payrolls, for these late payments, were from August 31, 2012 to September 27, 2013. The amounts due for the August 31, 2012 payroll were paid 491 days late and the other payments were from 7 to 52 days late. The employee's lost earnings, from these amounts being paid late, were \$10,236.36 as calculated by a representative of McCready and Keene, Inc. The School Corporation is making arrangements to pay this amount to TD Ameritrade which will then be applied to each employee's accounts that were affected by these late payments.

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)

SUPPLEMENTAL AUDIT OF
FEDERAL AWARDS



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE

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

Report on Compliance for Each Major Federal Program

We have audited the Northwestern School Corporation's (School Corporation) compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the period of July 1, 2011 to June 30, 2013. 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.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the School Corporation's major federal programs based on our audit of the types of compliance requirements referred to above. 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 on compliance for each major federal program. However, our audit does not provide a legal determination of the School Corporation's compliance.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
(Continued)

Opinion on Each Major Federal Program

In our opinion, the School Corporation complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the period of July 1, 2011 to June 30, 2013.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, 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 2013-004 and 2013-005. Our opinion on each major federal program is not modified with respect to these matters.

The School Corporation's response to the noncompliance findings identified in our audit is described in the accompanying Corrective Action Plan. The School Corporation's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of the School Corporation is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the School Corporation's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major federal program and to 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.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance 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. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 2013-003 and 2013-005 to be material weaknesses.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
(Continued)

The School Corporation's response to the internal control over compliance findings identified in our audit is described in the accompanying Corrective Action Plan. The School Corporation's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.


Paul D. Joyce, CPA
State Examiner

February 26, 2014

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

The Schedule of Expenditures of Federal Awards and accompanying notes presented were prepared 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, 2012 and 2013

Federal Grantor Agency Cluster Title/Program Title/Project Title	Pass-Through Entity or Direct Grant	Federal CFDA Number	Pass-Through Entity (or Other) Identifying Number	Total Federal Awards Expended 06-30-12	Total Federal Awards Expended 06-30-13
<u>U.S. Department of Agriculture</u>					
Child Nutrition Cluster					
School Breakfast Program	Indiana Department of Education	10.553			
			FY 2012	\$ 20,809	\$ -
			FY 2013	-	20,544
				<u>20,809</u>	<u>20,544</u>
Total - School Breakfast Program				<u>20,809</u>	<u>20,544</u>
National School Lunch Program	Indiana Department of Education	10.555			
			FY2012	184,255	-
			FY2013	-	221,280
				<u>184,255</u>	<u>221,280</u>
Total - National School Lunch Program				<u>184,255</u>	<u>221,280</u>
Total - Child Nutrition Cluster				<u>205,064</u>	<u>241,824</u>
Child and Adult Care Food Program	Indiana Department of Education	10.558			
			FY2012	668	-
				<u>668</u>	<u>-</u>
Total - U.S. Department of Agriculture				<u>205,732</u>	<u>241,824</u>
<u>U.S. Department of Education</u>					
Title I, Part A Cluster					
Title I Grants to Local Education Agencies	Indiana Department of Education	84.010			
			SY 2010/11	131,501	-
			SY 2011/12	116,762	104,436
			SY 2012/13	-	96,987
				<u>131,501</u>	<u>104,436</u>
				<u>116,762</u>	<u>96,987</u>
				<u>-</u>	<u>-</u>
Total - Title I, Part A Cluster				<u>248,263</u>	<u>201,423</u>

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

NORTHWESTERN SCHOOL CORPORATION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Years Ended June 30, 2012 and 2013
(Continued)

Federal Grantor Agency Cluster Title/Program Title/Project Title	Pass-Through Entity or Direct Grant	Federal CFDA Number	Pass-Through Entity (or Other) Identifying Number	Total Federal Awards Expended 06-30-12	Total Federal Awards Expended 06-30-13
<u>U.S. Department of Education (continued)</u>					
Special Education Cluster (IDEA)					
Special Education - Grants to States	Indiana Department of Education	84.027	FY 2012	68,486	-
ARRA - Special Education - Grants to States, Recovery Act	Western School Corporation	84.391	FY 2011	51,538	-
ARRA - Special Education - Preschool Grants, Recovery		84.392	FY 2012	3,905	-
Total - Special Education Cluster (IDEA)				123,929	-
Safe and Drug-Free Schools and Communities - State Grants	Indiana Department of Education	84.186	FY 2010-2011	6,512	-
Improving Teacher Quality State Grants	Indiana Department of Education	84.367	FY 2010/11 FY 2011/12	55,266 -	- 46,243
Total - Improving Teacher Quality State Grants				55,266	46,243
Education Jobs Fund	Indiana Department of Education	84.410	FY 2011/12	-	171,046
Total - U.S. Department of Education				433,970	418,712
Total federal awards expended				<u>\$ 639,702</u>	<u>\$ 660,536</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, 2012 and 2013. This noncash assistance is also included in the federal expenditures presented in the schedule.

Program Title	Federal CFDA Number	2012	2013
School Breakfast Program	10.553	\$ 3,577	\$ 3,455
National School Lunch Program	10.555	31,787	37,070

NORTHWESTERN SCHOOL CORPORATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section I - Summary of Auditor's Results

Financial Statement:

Type of auditor's report issued:	Adverse as to GAAP; Unmodified as to Regulatory Basis
Internal control over financial reporting:	
Material weaknesses identified?	yes
Significant deficiencies identified?	none reported
Noncompliance material to financial statement noted?	yes

Federal Awards:

Internal control over major programs:	
Material weaknesses identified?	yes
Significant deficiencies identified?	none reported
Type of auditor's report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133?	yes

Identification of Major Programs:

Name of Federal Program or Cluster

Child Nutrition Cluster
Title I, Part A Cluster

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

Auditee qualified as low-risk auditee? no

Section II - Financial Statement Findings

FINDING 2013-001 - INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING

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

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

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

2. **Preparing Financial Statements:** Effective internal control over financial reporting involves the identification and analysis of the risks of material misstatement to the School Corporation's audited financial statement and then determining how those identified risks should be managed. The School Corporation has not identified risks to the preparation of a reliable financial statement and as a result has failed to design effective controls over the preparation of the financial statement to prevent, or detect and correct, material misstatements, including notes to the financial statement.
3. **Monitoring of Controls:** Effective internal control over financial reporting requires the School Board to monitor and assess the quality of the School Corporation's system of internal control. The School Board has not performed either an ongoing or separate evaluation of their system of internal controls. The failure to exercise their oversight responsibility place the School Corporation at risk that controls may not be designed or operating effectively to provide reasonable assurance that controls will prevent, or detect and correct, material misstatements in a timely manner. Additionally, the School Corporation has no process to identify or communicate corrective actions to improve controls.

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.

Controls over the receipting, disbursing, recording, and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and financial statements and incorrect decision making. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

FINDING 2013-002 - PREPARATION OF SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (SEFA)

The School Corporation did not have a proper system of internal control in place to prevent, or detect and correct, errors on the Schedule of Expenditures of Federal Awards (SEFA). The School Corporation should have proper controls in place over the preparation of the SEFA to ensure accurate reporting of federal awards. Without a proper system of internal control in place that operates effectively, material misstatements of the SEFA could remain undetected.

During the audit of the SEFA, we noted the following error: All applicable grants were not presented on the SEFA. The School Corporation accepted audit adjustments proposed for the SEFA. The adjustments were made to the SEFA presented in this report. These adjustments resulted in a presentation of the SEFA that is materially correct in relation to the financial statement.

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.

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

Controls over the receipting, disbursing, recording, and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and financial statements and incorrect decision-making. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

OMB Circular A-133, Subpart C, section .300 states in part: "The auditee shall: . . . (d) Prepare appropriate financial statements, including the schedule of expenditures of Federal Awards in accordance with section .310."

OMB Circular A-133, Subpart C, section .310(b) states:

"Schedule of expenditures of Federal awards. The auditee shall also prepare a schedule of expenditures of Federal awards for the period covered by the auditee's financial statements. While not required, the auditee may choose to provide information requested by Federal awarding agencies and pass-through entities to make the schedule easier to use. For example, when a Federal program has multiple award years, the auditee may list the amount of Federal awards expended for each award year separately. At a minimum, the schedule shall:

- (1) List individual Federal programs by Federal agency. For Federal programs included in a cluster of programs, list individual Federal programs within a cluster of programs. For R&D, total Federal awards expended shall be shown either by individual award or by Federal agency and major subdivision within the Federal agency. For example, the National Institutes of Health is a major subdivision in the Department of Health and Human Services.
- (2) For Federal awards received as a subrecipient, the name of the pass-through entity and identifying number assigned by the pass-through entity shall be included.
- (3) Provide total Federal awards expended for each individual Federal program and the CFDA number or other identifying number when the CFDA information is not available.
- (4) Include notes that describe the significant accounting policies used in preparing the schedule.
- (5) To the extent practical, pass-through entities should identify in the schedule the total amount provided to subrecipients from each Federal program.
- (6) Include, in either the schedule or a note to the schedule, the value of the Federal awards expended in the form of non-cash assistance, the amount of insurance in effect during the year, and loans or loan guarantees outstanding at year end. While not required, it is preferable to present this information in the schedule."

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

Section III - Federal Award Findings and Questioned Costs

FINDING 2013-003 - INTERNAL CONTROLS OVER COMPLIANCE REQUIREMENTS THAT HAVE A DIRECT AND MATERIAL EFFECT TO THE NATIONAL SCHOOL LUNCH CLUSTER

Federal Agency: U.S. Department of Agriculture

Federal Program: School Breakfast Program, National School Lunch Program

CFDA Number: 10.553, 10.555

Federal Award Number and Year (or Other Identifying Number): FY 2012, FY 2013

Pass-Through Entity: Indiana Department of Education

Management of the School Corporation has not established an effective internal control system, which would include segregation of duties, related to the grant agreement and the compliance requirements that have a direct and material effect to the program. This includes the compliance requirements for Cash Management, Program Income, Reporting, and Special Test and Provision - Verification of Free/Reduced Applications. The failure to establish an effective internal control system places the School Corporation at risk of noncompliance with the grant agreement and the compliance requirements. A lack of segregation of duties within an internal control system could also allow noncompliance with compliance requirements and allow the misuse and mismanagement of federal funds and assets by not having proper oversight, reviews, and approvals over the activities of the program.

An internal control system, including segregation of duties, should be designed and operate effectively to provide reasonable assurance that material noncompliance with the grant agreement, or a type of compliance requirement of a federal program will be prevented, or detected and corrected, on a timely basis. In order to have an effective internal control system, it is important to have proper segregation of duties. This is accomplished by making sure proper oversight, reviews, and approvals take place and to have a separation of functions over certain activities related to the program. The fundamental premise of segregation of duties is that an individual or small group of individuals should not be in a position to initiate, approve, undertake, and review the same activity.

OMB Circular A-133, 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."

The failure to establish internal controls could enable material noncompliance to go undetected. Noncompliance of the grant agreement or the compliance requirements that have a direct and material effect to the program could result in the loss of federal funds to the School Corporation.

We recommended that the School Corporation's management establish controls, including segregation of duties, related to the grant agreement and the compliance requirements noted above that have a direct and material effect to the program.

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

**FINDING 2013-004 - NONCOMPLIANCE OVER REPORTING
AND PROGRAM INCOME - CHILD NUTRITION CLUSTER**

Federal Agency: U.S. Department of Agriculture
Federal Program: School Breakfast Program, National School Lunch Program
CFDA Number: 10.553, 10.555
Federal Award Number and Year (or Other Identifying Number): FY 2012, FY 2013
Pass-Through Entity: Indiana Department of Education

The School Corporation is required to file annual reports with the Indiana Department of Education and those reports were completed for the school years of 2011-2012 and 2012-2013. Although the amounts shown as income on these reports did agree in total to the School Corporation's records, the breakdown of income of "School Lunch," "School Breakfast," and "Other Food Service" (Ala Cart) reported under "Sales to Children" and "Sales to Adults" was not accurate and materially misrepresents those sale categories. Instead of using a prepaid clearing account to track prepaid amounts for the School Breakfast Program and National School Lunch Program, the payments were posted to the school lunch, school breakfast, and ala cart accounts based on a fixed percentage of 60 percent, 10 percent, and 30 percent, respectively, and were never reconciled to the actual meals sold. This does not provide the actual income for the categories as required by the annual report.

7 CFR 3016.20 states in part:

"(a) A State must expand and account for grant funds in accordance with State laws and procedures for expending and accounting for its own funds. Fiscal control and accounting procedures of the State, as well as its subgrantees and cost-type contractors, must be sufficient to—

- (1) Permit preparation of reports required by this part and the statutes authorizing the grant, and
- (2) Permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of applicable statutes.

(b) The financial management systems of other grantees and subgrantees must meet the following standards:

- (1) *Financial reporting.* Accurate, current, and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the grant or subgrant.
- (2) *Accounting records.* Grantees and subgrantees must maintain records which adequately identify the source and application of funds provided for financially-assisted activities. These records must contain information pertaining to grant or subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income."

7 CFR 210.15(a) states in part: "Participating school food authorities are required to submit forms and reports to the State agency or the distributing agency, as appropriate, to demonstrate compliance with Program requirements."

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

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

We recommended the School Corporation's management establish procedures related to the timely filing, proper preparation, and thorough review of information provided in the Child Nutrition Cluster reports, as well as, establishing procedures to enable the proper recording of the School Lunch's Program Income.

FINDING 2013-005 - INTERNAL CONTROLS AND NONCOMPLIANCE OVER COMPLIANCE REQUIREMENTS THAT HAVE A DIRECT AND MATERIAL EFFECT TO THE TITLE I, PART A CLUSTER

Federal Agency: U.S. Department of Education

Federal Program: Title I, Grants to Local Education Agencies

CFDA Number: 84.010

Federal Award Years (or Other Identifying Number): SY 2010/11, SY2011/12, SY 2012/13

Pass-Through Entity: Indiana Department of Education

Management of the School Corporation has not established an effective internal control system, which would include segregation of duties, related to the grant agreement and the compliance requirements that have a direct and material effect to the program. This includes the compliance requirements for Allowable Costs, Allowable Activities, Cash Management, Period of Availability, Matching, Level of Effort, and Earmarking, Reporting, and Special Tests and Provisions-Comparability. The failure to establish an effective internal control system places the School Corporation at risk of noncompliance with the grant agreement and the compliance requirements. A lack of segregation of duties within an internal control system could also allow noncompliance with compliance requirements and allow the misuse and mismanagement of federal funds and assets by not having proper oversight, reviews, and approvals over the activities of the program.

Two of the Title I Reimbursement Requests were not presented for audit. The actual reimbursements for those two requests were receipted by the School Corporation on July 15, 2011, and December 28, 2011. In addition, the School Corporation did not separate the revenues for each program year into separate funds, and instead combined all reimbursements into funds by calendar year received. This manner of accounting for the Title I funds made it difficult to determine the accuracy of the reports.

34 CFR 80.20(b) states in part:

"The financial management systems of other grantees and subgrantees must meet the following standards:

- (1) Financial Reporting. Accurate, current and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the grant or subgrant.
- (2) Accounting records. Grantees and subgrantees must maintain records which adequately identify the source and application of funds provided for financially-assisted activities. These records must contain information pertaining to grant or subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income."

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

An internal control system, including segregation of duties, should be designed and operate effectively to provide reasonable assurance that material noncompliance with the grant agreement, or a type of compliance requirement of a federal program, will be prevented, or detected and corrected, on a timely basis. In order to have an effective internal control system, it is important to have proper segregation of duties. This is accomplished by making sure proper oversight, reviews, and approvals take place and to have a separation of functions over certain activities related to the program. The fundamental premise of segregation of duties is that an individual or small group of individuals should not be in a position to initiate, approve, undertake, and review the same activity.

OMB Circular A-133, 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."

The failure to establish internal controls could enable material noncompliance to go undetected. Noncompliance of the grant agreement or the compliance requirements that have a direct and material effect to the program could result in the loss of federal funds to the School Corporation.

We recommended that the School Corporation's management establish controls, including segregation of duties, related to the grant agreement and the compliance requirements noted above that have a direct and material effect on the program.

Northwestern School Corporation

Where Excellence In Education is a Tradition

NORTHWESTERN SCHOOL CORPORATION

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Finding 2011-02 – REPORTING

Title I reports are e-mailed to the program director upon submission.

Finding 2011-03 – TITLE I SEGREGATION OF PROGRAMS

The Title I program is now assigned a new fund number for each program year.

Finding 2011-04 – INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING

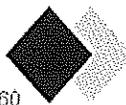
The administration office has reviewed office procedures and attempted to assign duties so there will be as much segregation of the incompatible duties as practical. However, the school corporation is a small unit and management has determined that the costs associated with employing additional staff 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.



Ryan Snoddy,
Superintendent



Date



February 26, 2014

Corrective Action Plan

Section II-Financial Statement Findings

FINDING 2013-001, 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 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.

Preparing Financial Statements: The administration office will review controls over the preparation of the financial statements in order to identify risks of material misstatement. Once the risks have been identified, an effective internal control procedure will be developed.

Monitoring of Controls: The School Board will perform an evaluation of the school corporation's system of internal control over financial reporting.

FINDING 2013-002, PREPARATION OF SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (SEFA)

The administration office will review controls over the preparation of the financial statements in order to identify risks of material misstatement. Once the risks have been identified, an effective internal control procedure will be developed.

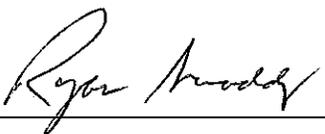
Section III-Federal Award Findings and Questioned Costs

FINDING 2013-003, INTERNAL CONTROLS OVER SPECIAL TEST AND PROVISION – VERIFICATION OF FREE/REDUCED APPLICATIONS – NATIONAL SCHOOL LUNCH CLUSTER: The administration office will review office procedures and attempt to assign duties so there will be as much segregation of the incompatible duties as 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.



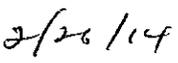
FINDING 20013-004, INTERNAL CONTROLS AND COMPLIANCE OVER REPORTING AND PROGRAM INCOME -- CHILD NUTRITION CLUSTER: The administration office will review office procedures to ensure compliance with the reporting requirements of the school lunch reports. Reports will be printed out after submitting the information on-line and kept in the School Lunch file.

FINDING 2013-005, INTERNAL CONTROLS OVER COMPLIANCE REQUIREMENTS THAT HAVE A DIRECT AND MATERIAL EFFECT TOT THE TITLE I, PART A CLUSTER: The administration office will review office procedures and attempt to assign duties so there will be as much segregation of the incompatible duties as 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.



Ryan Snoddy

Superintendent



Date

NORTHWESTERN SCHOOL CORPORATION
EXIT CONFERENCE

The contents of this report were discussed on February 26, 2014, with Ryan Snoddy, Superintendent of Schools, and Todd Moser, President of the School Board. The officials concurred with our audit findings.