

NORTHWESTERN LOCAL SCHOOL DISTRICT

SINGLE AUDIT

YEAR ENDED JUNE 30, 2004



**Auditor of State
Betty Montgomery**

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

We have reviewed the Independent Auditor's Report of the Northwestern Local School District, Wayne County, prepared by Rea & Associates, Inc., for the audit period July 1, 2003 through June 30, 2004. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

A handwritten signature in cursive script that reads "Betty Montgomery".

BETTY MONTGOMERY
Auditor of State

November 5, 2004

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**NORTHWESTERN LOCAL SCHOOL DISTRICT
WAYNE COUNTY**

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Rea & Associates, Inc.

ACCOUNTANTS AND BUSINESS CONSULTANTS

July 30, 2004

The Board of Education
Northwestern Local School District
West Salem, Ohio 44287

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of Northwestern Local School District as of and for the year ended June 30, 2004, as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *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 statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the 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.

Ohio Administrative Code Section 117-2-03 requires the District to prepare its annual financial report in accordance with generally accepted accounting principles. However, as discussed in Note 1, the District prepares its financial statements on the basis of accounting formerly prescribed or permitted by the Auditor of State, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The accompanying financial statements omit assets, liabilities, fund equities and disclosures that, while material, cannot be determined at this time.

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances and reserves for encumbrances of the District as of June 30, 2004, and its combined cash receipts and disbursements for the year then ended on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued a report dated July 30, 2004, on our consideration of Northwestern Local School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Governmental Audit Standards* and should be read in conjunction with this report in considering the results of our audit.

This report is intended solely for the information and use of management, board of trustees and other officials authorized to receive this report under Section 117.26, Ohio Revised Code, and is not intended to be and should not be used by anyone other than these specified parties.

Rea & Associates, Inc.

NORTHWESTERN LOCAL SCHOOL DISTRICT

**COMBINED STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN FUND CASH BALANCES
ALL GOVERNMENTAL AND SIMILAR FIDUCIARY FUND TYPES
FOR THE YEAR ENDED JUNE 30, 2004**

	Governmental Fund Types			Capital Projects	Fiduciary Fund Type	Total
	General	Special Revenue	Debt Service		Expendable Trust	(Memorandum Only)
CASH RECEIPTS						
Taxes	\$ 3,323,939	\$ 46,185	\$ 823,977	\$ 201,106	\$ 0	\$ 4,395,207
Intergovernmental	6,366,036	529,121	100,137	651,464	0	7,646,758
Investment Income	14,571	2,431	0	60,945	1,500	79,447
Tuition and Fees	271,034	0	0	0	0	271,034
Extracurricular Activities	0	314,219	0	0	4,736	318,955
Gifts and Donations	0	17,476	0	0	0	17,476
Miscellaneous	9,144	8,438	0	2,329	3,178	23,089
Total Cash Receipts	9,984,724	917,870	924,114	915,844	9,414	12,751,966
CASH DISBURSEMENTS:						
Instruction:						
Regular	4,636,430	44,649	0	30,250	0	4,711,329
Special	658,844	347,950	0	0	0	1,006,794
Vocational	509,312	7,077	0	0	0	516,389
Other	293,933	0	0	0	0	293,933
Support Services:						
Pupils	282,060	145,019	0	0	0	427,079
Instructional Staff	373,402	85,917	0	0	3,023	462,342
Board of Education	85,670	0	0	0	0	85,670
Administration	773,592	43,089	0	0	0	816,681
Fiscal	233,310	15,089	16,366	4,086	0	268,851
Operation and Maintenance of Plant	867,895	57,777	0	0	0	925,672
Pupil Transportation	694,791	0	0	0	0	694,791
Central	29,181	27,177	0	0	0	56,358
Operation of Non-Instructional Services	1,200	0	0	0	12,000	13,200
Extracurricular Activities	203,734	167,918	0	0	0	371,652
Capital Outlay	0	0	0	11,255,069	0	11,255,069
Debt Service:						
Principal Retirement	0	0	300,000	0	0	300,000
Interest and Fiscal Charges	0	0	446,655	0	0	446,655
Refunding Bond Issuance Costs	0	0	81,689	0	0	81,689
Total Cash Disbursements	9,643,354	941,662	844,710	11,289,405	15,023	22,734,154
Total Cash Receipts Over/(Under) Cash Disbursements	341,370	(23,792)	79,404	(10,373,561)	(5,609)	(9,982,188)
Other Financing Sources (Uses)						
Proceeds of Refunding Bonds	0	0	3,352,935	0	0	3,352,935
Payment to Refund Bond Escrow Agent	0	0	(3,271,246)	0	0	(3,271,246)
Operating Transfers In	0	43,327	99,103	0	0	142,430
Operating Transfers Out	(142,430)	0	0	0	0	(142,430)
Total Other Financing Sources (Uses)	(142,430)	43,327	180,792	0	0	81,689
Excess of Cash Receipts and Other Financing Sources Over/(Under) Cash Disbursements and Other Financing Uses	198,940	19,535	260,196	(10,373,561)	(5,609)	(9,900,499)
Fund Cash Balances, July 1, 2003	1,061,179	240,346	717,030	11,346,858	141,876	13,507,289
Fund Cash Balances, June 30, 2004	\$ 1,260,119	\$ 259,881	\$ 977,226	\$ 973,297	\$ 136,267	\$ 3,606,790
Reserves for Encumbrances	\$ 268,137	\$ 15,117	\$ 0	\$ 344,612	\$ 0	\$ 627,866

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

NORTHWESTERN LOCAL SCHOOL DISTRICT
COMBINED STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN FUND CASH BALANCES
ALL PROPRIETARY AND SIMILAR FIDUCIARY FUND TYPES
FOR THE YEAR ENDED JUNE 30, 2004

	Proprietary Fund Types		Fiduciary Fund Type		Total (Memorandum Only)
	Enterprise	Internal Service	Non Expendable Trust	Agency	
OPERATING CASH RECEIPTS					
Sales	\$ 283,015	\$ 0	\$ 0	\$ 52,448	\$ 335,463
Charges for Services	0	87,900	0	5,591,300	5,679,200
Investment Income	0	0	101	0	101
Other Operating Revenues	0	0	500	0	500
Total Operating Cash Receipts	283,015	87,900	601	5,643,748	6,015,264
OPERATING CASH DISBURSEMENTS					
Salaries	152,650	0	0	5,500	158,150
Fringe Benefits	83,391	0	0	4,548,738	4,632,129
Purchased Services	12,283	93,497	0	702,571	808,351
Materials and Supplies	182,796	0	0	158	182,954
Capital Outlay	395	0	0	0	395
Other Operating Expenses	52	0	831	58,494	59,377
Total Operating Cash Disbursements	431,567	93,497	831	5,315,461	5,841,356
Operating Income (Loss)	(148,552)	(5,597)	(230)	328,287	173,908
NON OPERATING CASH RECEIPTS/(DISBURSEMENTS)					
Operating Grants	158,341	0	0	0	158,341
Interest	347	326	0	12,806	13,479
Other Non-Operating Revenue	1,797	0	0	0	1,797
Total Non Operating Cash Receipts/(Disbursements)	160,485	326	0	12,806	173,617
Excess Cash Receipts Over/(Under) Cash Disbursements	11,933	(5,271)	(230)	341,093	347,525
Net Cash Receipts Over/(Under) Cash Disbursements	11,933	(5,271)	(230)	341,093	347,525
Fund Cash Balances, July 1, 2003	77,967	32,039	8,655	1,258,151	1,376,812
Fund Cash Balances, June 30, 2004	<u>\$ 89,900</u>	<u>\$ 26,768</u>	<u>\$ 8,425</u>	<u>\$ 1,599,244</u>	<u>\$ 1,724,337</u>
Reserves for encumbrances	<u>\$ 5,971</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 4,820</u>	<u>\$ 10,791</u>

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

**NORTHWESTERN LOCAL SCHOOL DISTRICT
WAYNE COUNTY**

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

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

Average daily membership on, or as of, October 1, 2003, was 1,446. The District employs 103 certificated and 64 non-certificated employees.

Management believes the financial statements included in the report represent all of the funds of the District over which the District has the ability to exercise direct operating control.

B. Basis of Accounting

Although required by Ohio Administrative Code Section 117-2-03 to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America, the District has chosen to prepare its financial statements on the basis of accounting formerly prescribed or permitted by the Auditor of State. The basis of accounting is similar to the cash receipts and cash disbursements basis of accounting. Receipts are recognized when received in cash rather than when they are earned, and disbursements are recognized when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved).

C. Cash and Investments

State Treasury Asset Reserve of Ohio (STAROhio), U.S. Debt Securities and cash deposits are reported at cost.

D. Fund Accounting

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

**NORTHWESTERN LOCAL SCHOOL DISTRICT
WAYNE COUNTY**

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004

Governmental Funds

The **General Fund** is used to account for all financial resources except those required to be accounted for in another fund.

The **Special Revenue Funds** are used to account for the proceeds of specific revenue sources, other than expendable trusts or major capital projects that are legally restricted to expenditure for specified purposes.

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

The **Capital Projects Funds** are used to account for financial resources to be used for the acquisition or construction of major capital facilities other than those financed by proprietary or non-expendable trust funds.

Proprietary Funds

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

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

Fiduciary Funds (Trust and Agency Funds)

Expendable Trust Funds are used to account for resources restricted by legally binding trust agreements.

The **Non-expendable Trust Funds** are accounted for in essentially the same manner as the proprietary fund types.

The **Agency Funds** are used to account for assets held by the District, an agent for individuals, private organizations, other governmental units, and/or other funds.

**NORTHWESTERN LOCAL SCHOOL DISTRICT
WAYNE COUNTY**

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004

E. Budgetary Process

1. Budget

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

2. Estimated Resources

The County Budget Commission determines if the budget substantiates a need to levy all or part of previously authorized taxes and reviews estimated revenue. The Commission certifies its actions to the District by March 1. As part of the certification, the District receives the official certificate of estimated resources, which states the projected revenue of each fund. Prior to June 30, the District must revise its budget so that the total contemplated expenditures from any fund during the ensuing fiscal year will not exceed the amount available as stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriation measure. On or about July 1, the certificate of estimated resources is amended to include any unencumbered balances from the preceding year. The certificate may be further amended during the year if a new source of revenue is identified or actual receipts exceed current estimates. Budgeted receipts in Note 3 do not include July 1, 2004 unencumbered fund balances. However, those fund balances are available for appropriations.

3. Appropriations

A temporary appropriations measure to control expenditures may be passed on or about July 1 of each year for the period July 1 to September 30. An annual appropriation resolution must be passed by October 1 of each year for the period July 1 to June 30. The appropriation resolution fixes spending authority at the fund, function level and may be amended during the year as new information becomes available provided that total fund appropriations do not exceed current estimated resources, as certified.

The allocation of appropriations among functions within a fund may be modified during the year by a resolution of the Board of Education. Several supplemental appropriation resolutions were legally enacted by the Board of Education during the year. The budget figures, as shown in Note 3 represent the final appropriation amounts including all amendments and modifications.

**NORTHWESTERN LOCAL SCHOOL DISTRICT
WAYNE COUNTY**

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004

4. Encumbrances

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

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

5. Compliance and Accountability

Total expenditures in the capital projects fund and enterprise fund exceeded appropriations.

F. Property, Plant, and Equipment

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

G. Unpaid Vacation and Sick Leave

Employees are entitled to cash payments for unused vacation and sick leave in certain circumstances, such as upon leaving employment. Unpaid vacation and sick leave are not reflected as liabilities under the cash basis of accounting used by the District.

H. Total Columns on Financial Statements

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

2. POOLED CASH AND INVESTMENTS

State statutes classify monies held by the School District into three categories:

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

**NORTHWESTERN LOCAL SCHOOL DISTRICT
WAYNE COUNTY**

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004

Inactive deposits are public deposits that the Board of Education had identified as not required for use within the current two year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts. Interim deposits are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts including passbook accounts.

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

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

1. United States treasury notes, bills, bonds, or any other obligation or security issued by the United States treasury or any other obligation guaranteed as to principal or interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the federal national mortgage association, federal home loan bank, federal farm credit bank, federal home loan mortgage corporation, government national mortgage association, and student loan marketing association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, with the term of the agreement not exceeding thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio);
7. Certain Bankers' acceptances and commercial paper notes for a period not to exceed one hundred eighty days in an amount not to exceed twenty-five percent of the interim moneys available for investment at any one time; and

**NORTHWESTERN LOCAL SCHOOL DISTRICT
WAYNE COUNTY**

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004

8. Under limited circumstances, corporate debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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

Deposits - At year-end, the carrying amount of the District's deposits was \$284,675 and the bank balance was \$360,455, of which \$100,000 was covered by federal depository insurance, and the remainder is collateralized by the financial institution's public entity deposit pool.

Investments

The District's investments are required to be categorized to give an indication of the level of risk assumed by the District at year-end. Category 1 includes investments that are insured or registered or for which the securities are held by the District or its agent in the District's name. Category 2 includes uninsured and unregistered investments, which are held by the counterparty's trust department or agent in the District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department or agent but not in the District's name.

Statutory provisions require that all securities acquired by the District be held by the District treasurer or deposited with a qualified trustee. Star Ohio is an unclassified investment since it is not evidenced by securities that exist in physical or book entry form.

	Category 3	Carrying Value	Market Value
U. S. Bank			
U. S. Debt Securities	\$ 885,170	\$ 885,170	\$ 885,170
Investment in State Treasurer's Investment Pool		4,161,282	4,161,282
		\$ 5,046,452	\$ 5,046,452

**NORTHWESTERN LOCAL SCHOOL DISTRICT
WAYNE COUNTY**

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004

Restricted Cash – Included in the June 30, 2004, General Fund cash balance is restricted cash and cash equivalents of \$172,311 set aside for the Budget Stabilization Reserve. Although no longer required by state statute, the Budget Stabilization Reserve may still be set aside at the discretion of the School District.

3. BUDGETARY ACTIVITY

Budgetary activity for the year ended June 30, 2004 as follows:

2004 Budgeted vs. Actual Receipts

	Budgeted Receipts	Actual Receipts	Variance
General	\$ 9,931,688	\$ 9,984,724	\$ 53,036
Special Revenue	847,100	961,196	114,096
Debt Service	960,103	4,376,152	3,416,049
Capital Projects	525,429	915,844	390,415
Enterprise	431,500	443,502	12,002
Internal Service	86,500	88,226	1,726
Fiduciary	5,300,475	5,666,568	366,093
Total	<u>\$ 18,082,795</u>	<u>\$ 22,436,212</u>	<u>\$ 4,353,417</u>

2004 Budgeted vs. Actual Expenditures

	Appropriation Authority	Actual Expenditures	Variance
General	\$ 10,046,626	\$ 10,053,921	\$ (7,295)
Special Revenue	901,156	956,779	(55,623)
Debt Service	787,544	4,115,956	(3,328,412)
Capital Projects	11,869,907	11,634,017	235,890
Enterprise	455,587	437,538	18,049
Internal Service	96,000	93,497	2,503
Fiduciary	5,049,045	5,336,134	(287,089)
Total	<u>\$ 29,205,865</u>	<u>\$ 32,627,842</u>	<u>\$ (3,421,977)</u>

**NORTHWESTERN LOCAL SCHOOL DISTRICT
WAYNE COUNTY**

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004

4. GENERAL LONG TERM OBLIGATIONS

	Outstanding June 30, 2003	Additions	Deductions	Outstanding June 30, 2004
General Obligation Bonds				
1.5% to 5.75%	\$ 0	\$ 2,995,000	\$ 0	2,995,000
4.5% to 7.2%	4,650,000	0	3,150,000	1,500,000
5.14%	55,000	0	55,000	0
Notes payable HB 264 - 5.6%	110,000	0	35,000	75,000
Various Improvement Bonds				
3.00% Due July 1, 2023	3,590,000	0	55,000	3,535,000
	<u>\$ 8,405,000</u>	<u>\$ 2,995,000</u>	<u>\$ 3,295,000</u>	<u>\$ 8,105,000</u>

Outstanding general obligation bonds consist of school building construction issues and school bus issues.

General obligation bonds are direct obligations of the District for which its full faith, credit and resources are pledged and are payable from taxes levied on all taxable property in the District. On October 15, 2003, the District issued \$2,995,000 refunded general obligation bonds. The proceeds of the bonds were used to refund in advance of their maturity the December 1, 2006 and December 1, 2016 maturities, totaling \$2,995,000 of the District's general obligations bonds, Series 1994. This refunding was done to achieve interest cost savings. Proceeds of the bonds were used to establish an irrevocable escrow account. Funds in the escrow account were invested in special direct obligations of the United States Treasury or other obligations of the United States government or its agencies. The escrow securities and their earnings are structured to pay the principal and interest on the refunded 1994 bonds as such payments become due, until the call dates of the respective refunded bonds, at which time the escrow payment will pay the principal of the refunded bonds at a price of par plus accrued interest. Since these bonds have been placed in an irrevocable trust, they are considered defeased for these financial statements. The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$357,935. The economic gain is \$254,510. The annual requirement to amortize all debt outstanding as of June 30, 2004, including interest payments of \$4,263,946 is as follows:

**NORTHWESTERN LOCAL SCHOOL DISTRICT
WAYNE COUNTY**

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004

Year Ending June 30,	Note	School Improvement Bonds	School Improvement Bonds	Various Improvement Bonds	Total
2005	\$39,276	\$272,173	\$165,255	\$234,298	\$711,002
2006	42,280	277,040	164,880	281,213	765,413
2007	0	81,720	367,968	281,964	731,652
2008	0	313,080	155,943	282,350	751,373
2009	0	319,900	155,343	277,460	752,703
2010-2014	0	346,440	1,818,288	1,396,285	3,561,013
2015-2019	0	459,746	1,589,746	1,386,065	3,435,557
2020-2014	0	0	0	1,660,235	1,660,235
Total Principal and Interest	81,556	2,070,099	4,417,423	5,799,870	12,368,948
Less: Interest	(6,556)	(570,099)	(1,422,423)	(2,264,870)	(4,263,948)
Total Principal	<u>\$75,000</u>	<u>\$1,500,000</u>	<u>\$2,995,000</u>	<u>\$3,535,000</u>	<u>\$8,105,000</u>

5. PROPERTY TAXES

Property taxes include amounts levied against all real, public utility, and tangible personal property located in the District. The Wayne and Ashland County Auditors are responsible for assessing and remitting these property taxes to the District.

Real property taxes are based on assessed value equal to thirty-five percent of appraisal value. The Wayne and Ashland County Auditors reappraise real property every six years with a triennial update, which last update was completed for 2002. Real property tax, which becomes a lien on the applicable real property, becomes due annually on December 31. However, in Wayne and Ashland Counties, real property taxes are billed semi-annually, one year in arrears. The tax rate applied to real property collected in 2003 before certain homestead and rollback reductions, which reductions are reimbursed to the District by the State of Ohio, for both Wayne and Ashland Counties amounted to \$34.90 per \$1,000 of valuation. The effective rate applied after adjustment for inflationary increases in property values for both counties was \$30.21 per \$1,000 of assessed valuation for residential and agricultural real property, and \$30.77 per \$1,000 of assessed valuation for other real property.

Tangible personal property used in business is required to be reported by its owners by April 30 of each year. The property is assessed for tax purposes at varying statutory percentages of cost. The tax rate applied to tangible personal property for the current year ended December 31, 2003 was \$34.90 per \$1,000 of valuation for both Wayne and Ashland Counties.

**NORTHWESTERN LOCAL SCHOOL DISTRICT
WAYNE COUNTY**

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004

6. DEFINED BENEFIT PENSION PLANS

A. SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS)

The Northwestern Local School District contributes to the School Employees Retirement System of Ohio (SERS), a cost sharing multiple-employer public employee retirement defined benefit pension plan. SERS provides retirement, annual cost-of-living adjustments, disability, survivor, and health care benefits. SERS issued a publicly available financial report that includes financial statements and required supplementary information for SERS. The report may be obtained by writing to the School Employees Retirement Systems, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746.

Plan members are required to contribute 9% of their annual covered salary and Northwestern Local School District is required to contribute at an actuarially determined rate. The current rate is 14% of annual covered payroll. The contribution requirement of plan members and Northwestern Local School District are established and may be amended by the SERS Board of Trustees. The School District's contributions to SERS for the fiscal years ended June 30, 2004, 2003 and 2002 were \$224,700, \$224,004, and, \$237,219, respectively; 100 percent has been contributed for the fiscal years 2004, 2003 and 2002.

B. STATE TEACHERS RETIREMENT SYSTEM (STRS)

The Northwestern Local School District contributes to the State Teachers Retirement System of Ohio (STRS), a cost sharing multiple-employer public employee retirement defined benefit pension plan operated by the State of Ohio. STRS provides retirement benefits, annual cost-of-living adjustments, disability, survivor, and health care benefits. STRS issued a publicly available financial report that includes financial statements and required supplementary information for STRS. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771 or by calling (614) 227-4090.

Plan members are required to contribute 9.3% of their annual covered salary and Northwestern Local School District is required to contribute an actuarially determined rate. The current rate is 14% of annual covered payroll. The contribution requirement of plan members and Northwestern Local School District are established and may be amended by the STRS Board of Trustees. The School District's contributions to STRS for the fiscal years ended June 30, 2004, 2003, and 2002 were \$676,632, \$682,860, and \$743,521, respectively; 100 percent has been contributed for the fiscal years 2004, 2003 and 2002.

7. POSTEMPLOYMENT BENEFITS

A. SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS)

The Ohio Revised Code gives SERS the discretionary authority to provide postretirement health care to retirees and their dependents. Coverage is made available to service retirees with ten or more years of qualifying service credit, disability, and survivor benefit recipients.

**NORTHWESTERN LOCAL SCHOOL DISTRICT
WAYNE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004**

Members retiring on or after August 1, 1989, with less than twenty-five years of service credit, must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75% of the premium.

After the allocation for basic benefits, the remainder of the employer's 14% contribution is allocated to providing health care benefits. For the fiscal year, ended June 30, 2004, employer contributions to fund health care benefits were 8.54% of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2003, the minimum pay has been established at \$12,400. The surcharge, added to the unallocated portion of the 14% employer contribution rate, provides for maintenance of the asset target level for the health care fund. For the School District, the amount contributed to fund health care benefits, including the surcharge, during the 2004 fiscal year equaled \$119,635.

Health care benefits are financed on a pay-as-you-go basis. The target level for the health care reserve is 150% of annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2003 (the latest information available), were \$204,737 and the target level was \$307.4 million. At June 30, 2003, SERS had net assets available for payment of health care benefits of \$303.6 million. SERS had approximately 50,000 participants currently receiving health care benefits.

B. STATE TEACHERS RETIREMENT SYSTEM (STRS)

The State Teachers Retirement System (STRS) provides comprehensive health care benefits to retirees and their dependents. Coverage includes hospitalization, physicians' fees, prescription drugs, and reimbursement of monthly Medicare premiums. All benefit recipient and sponsored dependents are eligible for health care coverage. Pursuant to the Ohio Revised Code (ORC), the State Teachers Retirement Board (Board) has discretionary authority over how much, if any, of the health care costs will be absorbed by STRS. All benefit recipients are required to pay a portion of the health care cost in the form of a monthly premium.

The ORC grants authority to STRS to provide health care coverage to benefit recipients, spouses, and dependents. By Ohio law, the cost of the coverage paid from STRS funds shall be included in the employer contribution rate; currently 14% of covered payroll.

The Board currently allocates employer contributions equal to 1% of covered payroll to the Health Care Reserve Fund from which payments for health care benefits are paid. However, for the fiscal year ended June 30, 2003, the board allocated employer contributions equal to 4.5% of covered payroll to the Health Care Reserve Board. The balance in the Health Care Reserve Fund was \$2.8 billion at June 30, 2003 (the latest information available). For the year ended June 30, 2003, the net health care costs paid by STRS were \$352,301,000. There were 105,300 eligible benefit recipients.

**NORTHWESTERN LOCAL SCHOOL DISTRICT
WAYNE COUNTY**

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004

8. JOINTLY GOVERNED ORGANIZATIONS

A. TRI-COUNTY COMPUTER SERVICES ASSOCIATION (TCCSA)

The Tri-County Computer Services Association (TCCSA) is a jointly governed organization comprised of 21 school districts. The jointly governed organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions for member districts. Each of the governments of these districts supports TCCSA based on per pupil charge dependent upon the software package utilized. The TCCSA assembly consists of a superintendent or designated representative from each participating district and a representative from the fiscal agent. TCCSA is governed by a board of directors chosen from the general membership of the TCCSA assembly. The board of directors consists of a representative from the fiscal agent, the chairman of each operating committee, and at least an assembly member from each county from which participating districts are located. Financial information can be obtained by contacting the Treasurer at the Ashland-Wayne County Education Services Center, which serves as fiscal agent, located at 2534 Burbank Road, Wooster, Ohio, 44691. During the year ended June 30, 2004 the District paid approximately \$162,682 to TCCSA for basic service charges.

9. CONTRACTUAL COMMITMENTS

As of June 30, 2004, the District had contractual purchase commitments as follows:

	<u>Contractual Commitment</u>	<u>Amount Expended</u>	<u>Balance 6/30/04</u>
Adena Corporation			
High School	\$ 6,708,264	\$ 6,588,383	\$ 119,881
Bogner Corporation			
Middle School	1,970,887	1,931,449	39,438
Lepi Enterprises			
Asbestos Abatement	43,161	39,708	3,453
Schmid Mechanical			
Middle School	1,040,976	1,020,818	20,158
Buehrer Group			
Architect	971,340	922,773	48,567
Walter Jones Construction			
Track Project	<u>150,868</u>	<u>83,407</u>	<u>67,461</u>
	<u>\$ 10,885,496</u>	<u>\$ 10,586,538</u>	<u>\$ 298,958</u>

10. STATE SCHOOL FUNDING DECISION

On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school-funding plan is unconstitutional.

**NORTHWESTERN LOCAL SCHOOL DISTRICT
WAYNE COUNTY**

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004

The Supreme Court relinquished jurisdiction over the case and directed “the Ohio General Assembly to enact a school funding scheme that is thorough and efficient”. The School District is currently unable to determine what effect, if any, this decision will have on its future State funding and its financial operations.

11. SET ASIDES

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

Effective April 10, 2001, Senate Bill 345, eliminated the requirement that the School Districts’ establish and maintain a budget stabilization reserve. By resolution, the Board can eliminate the reserve in accordance with the act.

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

	Budget Stabilization Reserve	Capital Improvement Reserve	Textbook Instructional Materials Reserve	Total
Set-Aside Cash Balance as of June 30, 2003	\$ 172,311	\$ 0	\$ 0	\$ 172,311
Set-Aside Carryover Balance as of June 30, 2003	0	0	(202,789)	(202,789)
Current Year Set-Aside Requirement	0	197,174	197,915	395,089
Qualifying Disbursements	0	(505,594)	(213,372)	(718,966)
Total	<u>\$ 172,311</u>	<u>\$ (308,420)</u>	<u>\$ (218,246)</u>	<u>\$ (354,355)</u>
Cash Balance Carried Forward FY 2005	<u>\$ 172,311</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 172,311</u>
Amount to Restrict for Set-Asides				<u>\$ 172,311</u>
Total Restricted Assets				<u>\$ 172,311</u>

The School District had qualifying disbursements during the year that reduced the capital improvements and textbook reserve set-asides below zero. These extra amounts may only be used to reduce the set-aside requirement of future years for the purchase of textbooks and/or instructional materials. Negatives are therefore not presented as being carried forward to the next fiscal year for the other set-asides. The total reserve balance for the set-asides at the end of the fiscal year was \$172,311.

12. RISK MANAGEMENT

The District is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees, and natural disasters. The District has a comprehensive property and casualty policy with the Hartford Insurance Company. The deductible is \$5,000 per incident on property and \$1,000 per incident on equipment. All vehicles

**NORTHWESTERN LOCAL SCHOOL DISTRICT
WAYNE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004**

are also insured with the Hartford Insurance Company and have a \$1,000 deductible. All board members, administrators, and employees are covered under a school district liability policy with the Nationwide Insurance Company. The limits of this coverage are \$1,000,000 per occurrence and \$3,000,000 per aggregate. Settled claims have not exceeded this commercial coverage in any of the past three years. There has not been a significant reduction in coverage from the prior year. The board president and the superintendent have a \$20,000 position bond with the Nationwide Insurance Company.

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

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

Rea & Associates, Inc.

ACCOUNTANTS AND BUSINESS CONSULTANTS

July 30, 2004

The Board of Education
Northwestern Local School District
West Salem, Ohio 44287

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

We have audited the financial statements of Northwestern Local School District as of and for the year ended June 30, 2004, and have issued our report thereon dated July 30, 2004. We have 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.

Compliance

As part of obtaining reasonable assurance about whether Northwestern Local School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 instances of noncompliance that is required to be reported under *Government Auditing Standards* which is described in the accompanying Schedule of Findings as noted item 2004-001. We also noted certain immaterial instances of noncompliance that we have reported to management of Northwestern Local School District in a separate letter dated July 30, 2004.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Northwestern Local School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design of operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of Northwestern Local School District in a separate letter dated July 30, 2004.

This report is intended solely for the information and use of the Board of Education, management, and federal awarding and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Rea & Associates, Inc.

Rea & Associates, Inc.

ACCOUNTANTS AND BUSINESS CONSULTANTS

July 30, 2004

The Board of Education
Northwestern Local School District
West Salem, Ohio 44287

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

Compliance

We have audited the compliance of Northwestern Local School District 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 year ended June 30, 2004. Northwestern Local School District'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 Northwestern Local School District's management. Our responsibility is to express an opinion on Northwestern Local School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circulars 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 Northwestern Local School District'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 on Northwestern Local School District's compliance with those requirements.

In our opinion, Northwestern Local School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2004.

Internal Control Over Compliance

The management of Northwestern Local School District 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 Northwestern Local School District'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 test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

Schedule of Expenditures of Federal Awards - Non GAAP Budgetary Basis

We have audited the financial statements of Northwestern Local School District as of and for the year ended June 30, 2004, and have issued our report thereon dated July 30, 2004. Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements of Northwestern Local School District. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

This report is intended solely for the information of the Board of Education, management, and 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.

Rea & Associates, Inc.

NORTHWESTERN LOCAL SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - NON-GAAP BUDGETARY BASIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

Federal Grantor/ Pass Through Grantor/ Program Title	CFDA Number	Federal Receipts	Federal Disbursements	Non-Cash Transactions
U. S. Department of Education (Passed Through Ohio Department of Education):				
Title I	84.010	\$ 132,592	\$ 132,592	\$ 0
Total Title I		132,592	132,592	0
Title VI-B - IDEA	84.027	180,847	180,847	0
Total Title VI-B		180,847	180,847	0
Drug Free Schools	84.186	6,083	6,083	0
Total Drug Free Schools		6,083	6,083	0
21st Century Learning Grant	84.287	7,766	7,766	0
Total 21st Century Grant		7,766	7,766	0
Title II-D TLCF	84.318	3,589	3,589	0
Total Title II-D		3,589	3,589	0
School Renovation, IDEA, and Technology	84.352A	0	360	0
Total School Renovatoin		0	360	0
Title II-A	84.367	51,315	51,315	0
Total Title II-A		51,315	51,315	0
SIG Grant	84.323	53,724	53,724	0
Total SIG Grant		53,724	53,724	0
Total US Department of Eudcation		435,916	436,276	0
U. S. Department of Health & Human Services (Passed Through State Department of MRDD):				
Medical Assistance Program/CAFS	93.778	19,237	19,237	0
U. S. Department of Agriculture (Passed Through Ohio Department of Education):				
<i>Nutrition Cluster</i>				
Food Distribution (A) (B)	10.550	33,317	0	102,318
School Breakfast Program (A)	10.553	13,449	13,449	0
National School Lunch Program (A)	10.555	135,561	135,561	0
Summer Food Service Program (A)	10.559	3,066	3,066	0
Total Department of Agriculture - Nutrition Cluster		185,393	152,076	102,318
TOTAL FEDERAL FINANCIAL ASSISTANCE		\$ 640,546	\$ 607,589	\$ 102,318

- (A) Federal money commingled with state subsidy reimbursements. It is assumed the money was spent on a first-in, first-out basis.
(B) Government commodities are reported at the fair market value of the commodities received and disbursed.

**NORTHWESTERN LOCAL SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 , Section .505
JUNE 30, 2004**

1. SUMMARY OF AUDITOR'S RESULTS

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

**NORTHWESTERN LOCAL SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 , Section .505
JUNE 30, 2004
Page 2**

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

NONCOMPLIANCE

Finding Number	2004-001
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Gaap Reporting

Ohio Admin. Code Section 117-2-03(B) requires the District to prepare its annual financial report in accordance with generally accepted accounting principles. For the fiscal year 2004, the District prepared its financial statements on the basis of accounting formerly prescribed and permitted by the Auditor of State, which is a basis of accounting other than accounting principles generally accepted in the United States of America. The accompanying financial statements omit assets, liabilities, fund equities, and disclosures that, while material, cannot be determined at this time. The District can be fined and various other administrative remedies may be taken against the District.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS
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None were noted



**Auditor of State
Betty Montgomery**

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Facsimile 614-466-4490

**NORTHWESTERN LOCAL SCHOOL DISTRICT
WAYNE COUNTY**

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
NOVEMBER 18, 2004**