



**Auditor of State
Betty Montgomery**

**NORTHWEST LOCAL SCHOOL DISTRICT
STARK COUNTY**

TABLE OF CONTENTS

TITLE	PAGE
Independent Accountants' Report.....	1
Management's Discussion and Analysis.....	3
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Assets	13
Statement of Activities	14
Fund Financial Statements:	
Balance Sheet – Governmental Funds	15
Statement of Revenues, Expenditures, and Changes in Fund Balances Governmental Funds	17
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual (Non-GAAP Budgetary Basis) General Fund	19
Statement of Fiduciary Net Assets Agency Funds	20
Notes to the Basic Financial Statements	21
Schedule of Receipts and Expenditures of Federal Awards.....	49
Notes to the Schedule of Receipts and Expenditures of Federal Awards	50
Independent Accountants' Report on Compliance and on Internal Control Required by <i>Government Auditing Standards</i>	51
Independent Accountants' Report on Compliance with Requirements Applicable to Its Major Federal Programs and on Internal Control Over Compliance in Accordance with OMB Circular A-133.....	53
Schedule of Findings.....	55
Schedule of Prior Audit Findings.....	56

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Northwest Local School District
Stark County
104 West Market Street
Canal Fulton, Ohio 44614

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Northwest Local School District, Stark County, Ohio, (the District) as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *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 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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Northwest Local School District, Stark County, Ohio, as of June 30, 2004, and the respective changes in financial position, and the respective budgetary comparison for the General Fund thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 31, 2005 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Managements Discussion and Analysis is not a required part of the basic financial statements but is supplementary information the Governmental Accounting Standards Board requires. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

We conducted our audit to form opinions on the financial statements that collectively comprise the District's basic financial statements. The accompanying Schedule of Receipts and Expenditures of Federal Awards is required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments and Non-Profit Organizations, and is not a required part of the basic financial statements. We subjected the Schedule of Receipts and Expenditures of Federal Awards to the auditing procedures applied in the audit of the basic financial statements. In our opinion, it is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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

Betty Montgomery
Auditor of State

March 31, 2005

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED

The discussion and analysis of the Northwest Local School District's ("the District") financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2004. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the District's financial performance.

Financial Highlights

Key financial highlights for 2004 are as follows:

- In total, net assets of governmental activities decreased \$1,154,598 which represents a 24.00% decrease from 2003.
- General revenues accounted for \$16,710,275 in revenue or 88.74% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$2,120,761 or 11.26% of total revenues of \$18,831,036.
- The District had \$19,985,634 in expenses related to governmental activities; only \$2,120,761 of these expenses were offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$16,710,275 were not adequate to provide for these programs.
- The District has three major governmental funds. They are the general fund, debt service fund and building fund. The general fund had \$16,022,185 in revenues and \$16,388,781 in expenditures. During fiscal 2004, the general fund's fund balance decreased \$381,794 from \$2,092,557 to \$1,710,763.
- The debt service fund had \$1,428,852 in revenues and \$1,347,809 in expenditures. During fiscal 2004, the debt service fund's fund balance increased \$81,043 from \$319,456 to \$400,499.
- The building fund had \$225,173 in revenues and \$2,634,522 in expenditures. During fiscal 2004, the building fund's fund balance decreased \$2,409,379 from \$22,816,665 to \$20,407,286.

Using these Basic Financial Statements (BFS)

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the District as a financial whole, an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities.

The *Statement of Net Assets* and *Statement of Activities* provide information about the activities of the whole District, presenting both an aggregate view of the District's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the District's most significant funds with all other nonmajor funds presented in total in one column. In the case of the District, the general fund, debt service fund and building fund are by far the most significant funds, and the only governmental funds reported as major funds.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED

Reporting the District as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains the large number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2004?" The statement of net assets and the statement of activities answer this question. These statements include *all non-fiduciary assets, liabilities, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the District's *net assets* and changes in those assets. This change in net assets is important because it tells the reader that, for the District as a whole, the *financial position* of the District has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include the District's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, required educational programs and other factors.

The statement of net assets and the statement of activities, include the District's programs and services, including instruction, support services, operation and maintenance of plant, pupil transportation, extracurricular activities, and food service operations.

The District's statement of net assets and statement of activities can be found on pages 13-14 of this report.

Reporting the District's Most Significant Funds

Fund Financial Statements

The analysis of the District's major governmental funds begins on page 9. Fund financial reports provide detailed information about the District's major funds. The District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the District's most significant funds. The District's major governmental funds are the general fund, debt service fund and building fund all other governmental funds are considered nonmajor.

Governmental Funds

Most of the District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial assets* than can readily be converted to cash. The governmental fund financial statements provide a detailed *short-term* view of the District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental *activities* (reported in the statement of net assets and the statement of activities) and governmental *funds* is reconciled in the basic financial statements. The basic governmental fund financial statements can be found on pages 15-19 of this report.

Reporting the District's Fiduciary Responsibilities

The District acts in a trustee capacity as an agent for students. These activities are reported in an agency fund. All of the District's fiduciary activities are reported in a separate statement of fiduciary net assets on page 20. These activities are excluded from the District's other financial statements because the assets cannot be utilized by the District to finance its operations.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 21-48 of this report.

The District as a Whole

The statement of net assets provides the perspective of the District as a whole.

The table below provides a summary of the District's net assets for 2004 and 2003.

	Net Assets	
	Governmental Activities 2004	Governmental Activities 2003
<u>Assets</u>		
Current and other assets	\$ 33,539,706	\$ 35,907,165
Capital assets	<u>5,118,392</u>	<u>3,111,198</u>
Total assets	<u>38,658,098</u>	<u>39,018,363</u>
<u>Liabilities</u>		
Current liabilities	10,201,223	9,121,553
Long-term liabilities	<u>24,801,441</u>	<u>25,086,778</u>
Total liabilities	<u>35,002,664</u>	<u>34,208,331</u>
<u>Net Assets</u>		
Invested in capital assets, net of related debt	2,598,149	2,500,056
Restricted	1,475,957	1,339,706
Unrestricted	<u>(418,672)</u>	<u>970,270</u>
Total net assets	<u>\$ 3,655,434</u>	<u>\$ 4,810,032</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2004, the District's assets exceeded liabilities by \$3,655,434. Of this total, \$1,475,957 is restricted in use leaving the District with unrestricted net assets deficit of \$(418,672).

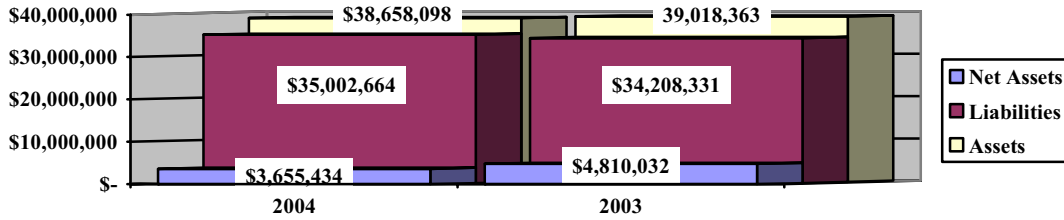
At year-end, capital assets represented 13.24% of total assets. Capital assets include land, buildings and improvements, furniture and equipment, vehicles and construction in progress. Capital assets, net of related debt to acquire the assets at June 30, 2004, were \$2,598,149. These capital assets are used to provide services to the students and are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the District's net assets, \$1,475,957 represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets of \$(418,672) may be used to meet the District's ongoing obligations to the students and creditors.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED

Governmental Activities



The table below shows the change in net assets for fiscal years 2004 and 2003.

Change in Net Assets

	Governmental Activities 2004	Governmental Activities 2003
<u>Revenues</u>		
Program revenues:		
Charges for services and sales	\$ 1,072,304	\$ 987,479
Operating grants and contributions	1,048,457	878,286
General revenues:		
Property taxes	6,629,358	7,124,633
Grants and entitlements	9,776,766	9,370,350
Investment earnings	275,880	562,524
Gain on disposal of capital assets	-	5,136
Miscellaneous	28,271	54,105
Total revenues	<u>18,831,036</u>	<u>18,982,513</u>

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED

	Governmental Activities <u>2004</u>	Governmental Activities <u>2003</u>
<u>Expenses</u>		
Program expenses:		
Instruction:		
Regular	9,027,213	8,542,965
Special	1,897,378	1,676,995
Vocational	261,556	267,404
Other	82,274	83,788
Support services:		
Pupil	827,581	699,993
Instructional staff	235,513	185,327
Board of education	49,958	70,734
Administration	1,536,092	1,343,666
Fiscal	369,656	325,284
Operations and maintenance	2,164,731	1,482,114
Pupil transportation	887,200	899,087
Central	452,101	333,399
Operations of non-instructional services	50,116	49,018
Extracurricular activities	334,394	395,697
Intergovernmental	103,720	102,758
Food service operations	638,391	541,189
Interest and fiscal charges	<u>1,067,760</u>	<u>1,093,540</u>
Total expenses	<u>19,985,634</u>	<u>18,092,958</u>
Change in net assets	<u>\$ (1,154,598)</u>	<u>\$ 889,555</u>

Governmental Activities

Net assets of the District's governmental activities decreased \$1,154,598. Total governmental expenses of \$19,985,634 were offset by program revenues of \$2,120,761 and general revenues of \$16,710,275. Program revenues supported 10.61% of the total governmental expenses.

The primary sources of revenue for governmental activities are derived from property taxes and grants and entitlements. These revenue sources represent 87.12% of total governmental revenue.

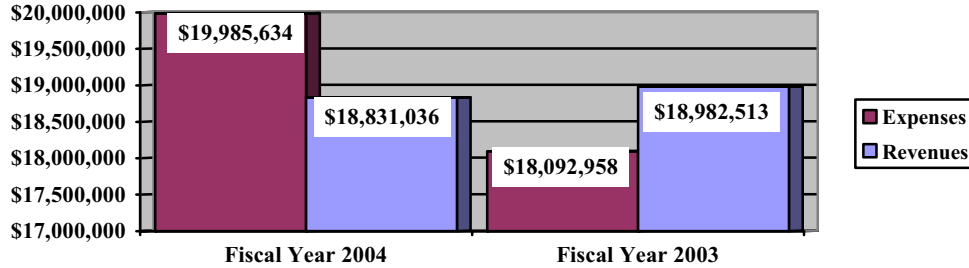
The largest expense of the District is for instructional programs. Instruction expenses totaled \$11,268,421 or 56.38% of total governmental expenses for fiscal year 2004.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED

The graph below presents the District's governmental activities revenue and expenses for fiscal years 2004 and 2003.

Governmental Activities - Revenues and Expenses



The statement of activities shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State grants and entitlements.

Governmental Activities

	Total Cost of Services 2004	Net Cost of Services 2004	Total Cost of Services 2003	Net Cost of Services 2003
Program expenses				
Instruction:				
Regular	\$ 9,027,213	\$ 8,419,137	\$ 8,542,965	\$ 8,128,310
Special	1,897,378	1,659,459	1,676,995	1,481,576
Vocational	261,556	261,556	267,404	267,404
Other	82,274	82,274	83,788	83,788
Support services:				
Pupil	827,581	639,752	699,993	503,627
Instructional staff	235,513	233,601	185,327	184,486
Board of education	49,958	49,958	70,734	70,734
Administration	1,536,092	1,536,092	1,343,666	1,343,666
Fiscal	369,656	369,656	325,284	321,990
Operations and maintenance	2,164,731	2,144,778	1,482,114	1,468,146
Pupil transportation	887,200	887,012	899,087	898,552
Central	452,101	306,305	333,399	171,814
Operations of non-instructional services	50,116	17,577	49,018	13,839
Extracurricular activities	334,394	174,751	395,697	257,796
Intergovernmental	103,720	(3,145)	102,758	(13,135)
Food service operations	638,391	446,009	541,189	(48,940)
Interest and fiscal charges	1,067,760	640,101	1,093,540	1,093,540
Total	<u>\$ 19,985,634</u>	<u>\$ 17,864,873</u>	<u>\$ 18,092,958</u>	<u>\$ 16,227,193</u>

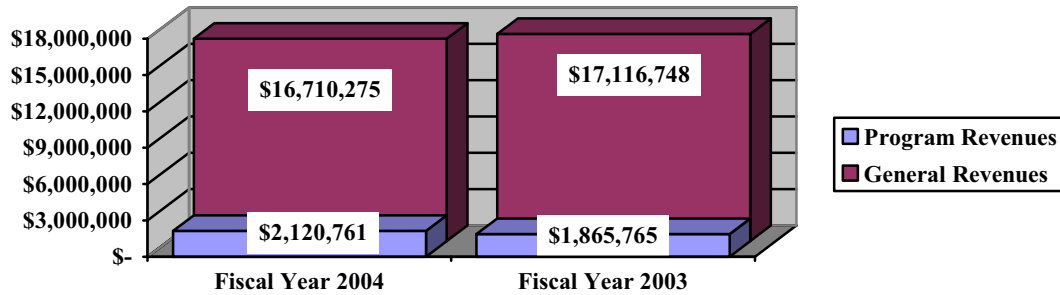
**NORTHWEST LOCAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED**

The dependence upon tax and other general revenues for governmental activities is apparent, 92.49% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 83.61%. The District's taxpayers and grants and entitlements, as a whole, are by far the primary support for District's students.

The graph below presents the District's governmental activities revenue for fiscal years 2004 and 2003.

Governmental Activities - General and Program Revenues



The District's Funds

The District's governmental funds (as presented on the balance sheet on page 15) reported a combined fund balance of \$23,106,607 which is lower than last year's total of \$25,703,382. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2004 and 2003.

	Fund Balance <u>June 30, 2004</u>	Fund Balance <u>June 30, 2003</u>	Increase <u>(Decrease)</u>
General	\$ 1,710,763	\$ 2,092,557	\$ (381,794)
Debt service	400,499	319,456	81,043
Building	20,407,286	22,816,665	(2,409,379)
Other Governmental	588,059	474,704	113,355
Total	<u>\$ 23,106,607</u>	<u>\$ 25,703,382</u>	<u>\$ (2,596,775)</u>

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED

General Fund

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

	2004 <u>Amount</u>	Restated 2003 <u>Amount</u>	Increase (Decrease)	Percentage Change
<u>Revenues</u>				
Taxes	\$ 5,936,178	\$ 6,061,642	\$ (125,464)	(2.07) %
Tuition	291,281	219,467	71,814	32.72 %
Earnings on investments	38,836	65,365	(26,529)	(40.59) %
Intergovernmental	9,678,384	9,266,023	412,361	4.45 %
Other revenues	<u>77,506</u>	<u>104,108</u>	<u>(26,602)</u>	(25.55) %
Total	<u>\$ 16,022,185</u>	<u>\$ 15,716,605</u>	<u>\$ 305,580</u>	1.94 %
<u>Expenditures</u>				
Instruction	\$ 10,702,215	\$ 10,146,979	\$ 555,236	5.47 %
Support services	5,394,249	4,836,466	557,783	11.53 %
Operation of non-instructional services	13,188	19,309	(6,121)	(31.70) %
Extracurricular activities	261,347	262,389	(1,042)	(0.40) %
Facilities acquisition and construction	-	8,560	(8,560)	(100.00) %
Capital outlay	-	50,446	(50,446)	(100.00) %
Debt service	<u>17,782</u>	<u>134,530</u>	<u>(116,748)</u>	(86.78) %
Total	<u>\$ 16,388,781</u>	<u>\$ 15,458,679</u>	<u>\$ 930,102</u>	6.02 %

Debt Service Fund

The District's debt service fund balance increased \$81,043. The debt service fund had revenues of \$1,428,852 and expenditures of \$1,347,809. The primary revenue source was from taxes which was \$1,341,289 in fiscal year 2004. During fiscal year 2004, the debt service fund made \$390,000 in principal payments and \$943,266 in interest payments.

Building Fund

The District's building fund balance decreased \$2,409,379. The building fund's only revenue source was earnings on investments which amounted to \$225,173 in fiscal year 2004. Total expenditures in the building fund were \$2,634,552 in fiscal year 2004.

General Fund Budgeting Highlights

The District's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The most significant budgeted fund is the general fund.

During the course of fiscal 2004, the District amended its general fund budget numerous times. For the general fund, final budgeted revenues were \$15,839,487, which was higher than the original budgeted revenues estimate of \$15,515,037. Actual revenues for fiscal 2004 were \$16,119,952. This represents a \$280,465 increase from final budgeted revenues.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED

General fund final appropriations (appropriated expenditures plus other financing uses) were \$17,576,392, which was higher than the original budgeted appropriations estimate of \$17,179,612. The actual budget basis expenditures and other financing uses for fiscal year 2004 totaled \$16,799,277, which was \$777,125 less than the final budget appropriations.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2004, the District had \$5,118,392 invested in land, buildings and improvements, furniture and equipment, vehicles and construction in progress (CIP). This entire amount is reported in governmental activities. The following table shows fiscal 2004 balances compared to 2003:

	Capital Assets at June 30	
	(Net of Depreciation)	
	<u>Governmental Activities</u>	
	<u>2004</u>	<u>2003</u>
Land	\$ 133,138	\$ 133,138
Buildings and improvements	1,661,795	1,762,516
Furniture and equipment	316,247	273,837
Vehicles	574,969	497,816
Construction in progress	<u>2,432,243</u>	<u>443,891</u>
Total	<u>\$ 5,118,392</u>	<u>\$ 3,111,198</u>

Total additions to capital assets for 2004 were \$2,323,021 and total disposals were \$13,273 (net of accumulated depreciation). The overall increase in capital assets of \$2,007,194 is primarily due to the construction in progress activity within the District in fiscal 2004. Depreciation expense for fiscal 2004 was \$302,554.

See Note 9 to the basic financial statements for additional information on the District's capital assets.

Debt Administration

At June 30, 2004, the District had \$23,408,741 in general obligation bonds and capital lease obligations outstanding. This total includes \$491,852 in unamortized premium on the bond issue. Of this total, \$688,000 is due within one year and \$22,720,741 is due within greater than one year. The following table summarizes the bonds and lease obligations outstanding.

	Outstanding Debt, at Year End	
	Governmental	Governmental
	Activities	Activities
	<u>2004</u>	<u>2003</u>
General obligation bonds (includes unamortized premium)	\$ 23,320,741	\$ 23,595,223
Capital lease obligation	<u>88,000</u>	<u>171,251</u>
Total	<u>\$ 23,408,741</u>	<u>\$ 23,766,474</u>

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED

Current Financial Related Activities

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

The District has a strong financial base for operations. The Board of Education and administration closely monitor the revenues and expenditures in accordance with its financial forecast.

As the preceding information shows, the District heavily depends on its property taxpayers. Our communities' support was recently measured by the passing of a \$23 million bond issue in May of 2002. The support of this issue demonstrates the strong belief of parents and community members that their schools are one of the highest priorities and one of the most important public institutions in their community.

Several significant legislative and judicial actions have occurred that will have a major impact on our School District. The Ohio Supreme Court ruled in March 1997 that the State of Ohio was operating an unconstitutional educational system, one that was neither "adequate" nor "equitable." The State has not yet developed a school-funding plan that has been deemed acceptable by the Court, and ultimate resolution still seems to be some time in the future. There is concern that the State may not have the ability to fully fund the previously approved subsidies for primary and secondary education in the State budget. Changes to the State's school foundation funding formula did not bode well for additional revenue, and in fact, caused a decline in foundation funding for 2004. In spite of this, the District has committed itself to educational and financial excellence. The District is committed to living within its financial means, and working with the community it serves in order to garner adequate resources to support the educational program.

Contacting the District's Financial Management

This financial report is designed to provide our citizen's taxpayers, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information contact Dan Levengood, Treasurer, Northwest Local School District, 104 West Market Street, Canal Fulton, Ohio 44614.

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

STATEMENT OF NET ASSETS
JUNE 30, 2004

	Governmental Activities
Assets:	
Equity in pooled cash and cash equivalents.	\$ 25,319,627
Receivables:	
Taxes	7,862,801
Accounts	496
Intergovernmental	25,021
Accrued interest	10,563
Unamortized bond issue costs.	286,812
Prepayments.	20,515
Materials and supplies inventory	13,871
Capital assets:	
Land and construction in process.	2,565,381
Depreciable capital assets, net	2,553,011
Total capital assets, net	5,118,392
 Total assets	 38,658,098
Liabilities:	
Accounts payable	29,659
Contracts payable.	684,342
Retainage payable	38,942
Accrued wages and benefits	1,618,657
Pension obligation payable.	424,937
Intergovernmental payable	153,584
Deferred revenue	7,173,322
Accrued interest payable	77,780
Long-term liabilities:	
Due within one year.	763,217
Due within more than one year	24,038,224
Total liabilities	35,002,664
Net Assets:	
Invested in capital assets, net of related debt.	2,598,149
Restricted for:	
Capital projects	297,740
Debt service.	428,761
Other purposes	749,456
Unrestricted	(418,672)
Total net assets	\$ 3,655,434

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	Program Revenues		Net (Expense) Revenue and Changes in Net Assets
	Expenses	Charges for Services and Sales	Operating Grants Grants and Contributions
			Governmental Activities
Governmental activities:			
Instruction:			
Regular	\$ 9,027,213	\$ 319,253	\$ 288,823
Special	1,897,378	-	237,919
Vocational	261,556	-	-
Other	82,274	-	-
Support services:			
Pupil	827,581	-	187,829
Instructional staff	235,513	-	1,912
Board of education	49,958	-	-
Administration	1,536,092	-	-
Fiscal	369,656	-	-
Operations and maintenance	2,164,731	19,953	-
Pupil transportation	887,200	-	188
Central	452,101	145,796	-
Operation of non-instructional services	50,116	-	32,539
Extracurricular activities	334,394	159,643	-
Intergovernmental	103,720	-	106,865
Food service operations	638,391	-	192,382
Interest and fiscal charges	1,067,760	427,659	-
Total governmental activities	\$ 19,985,634	\$ 1,072,304	\$ 1,048,457

General Revenues:

Property taxes levied for:	
General purposes	5,297,037
Debt service	1,186,159
Capital outlay	146,162
Grants and entitlements not restricted to specific programs	9,776,766
Investment earnings	275,880
Miscellaneous	28,271
Total general revenues	16,710,275
Change in net assets	(1,154,598)
Net assets at beginning of year	4,810,032
Net assets at end of year	\$ 3,655,434

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2004

	<u>General</u>	<u>Debt Service</u>	<u>Building</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:					
Equity in pooled cash and cash equivalents	\$ 3,207,300	\$ 287,483	\$ 21,122,466	\$ 657,984	\$ 25,275,233
Receivables:					
Taxes	6,085,826	1,597,167	-	179,808	7,862,801
Accounts	496	-	-	-	496
Intergovernmental	-	-	-	25,021	25,021
Accrued interest	10,563	-	-	-	10,563
Prepayments	20,515	-	-	-	20,515
Materials and supplies inventory	2,343	-	-	11,528	13,871
Restricted assets:					
Equity in pooled cash and cash equivalents	44,394	-	-	-	44,394
Total assets.	<u>\$ 9,371,437</u>	<u>\$ 1,884,650</u>	<u>\$ 21,122,466</u>	<u>\$ 874,341</u>	<u>\$ 33,252,894</u>
Liabilities:					
Accounts payable	\$ 22,752	\$ -	\$ -	\$ 6,907	\$ 29,659
Contracts payable	-	-	676,238	8,104	684,342
Retainage payable	-	-	38,942	-	38,942
Accrued wages and benefits	1,530,806	-	-	87,851	1,618,657
Compensated absences payable	37,899	-	-	-	37,899
Pension obligation payable	260,708	-	-	5,260	265,968
Intergovernmental payable	146,725	-	-	6,859	153,584
Deferred revenue	5,661,784	1,484,151	-	171,301	7,317,236
Total liabilities.	<u>7,660,674</u>	<u>1,484,151</u>	<u>715,180</u>	<u>286,282</u>	<u>10,146,287</u>
Fund Balances:					
Reserved for encumbrances	268,230	-	6,418,270	108,399	6,794,899
Reserved for school bus purchases	44,394	-	-	-	44,394
Reserved for materials and supplies inventory	2,343	-	-	11,528	13,871
Reserved for debt service	-	287,483	-	-	287,483
Reserved for property tax unavailable for appropriation	428,086	113,016	-	8,507	549,609
Reserved for prepayments	20,515	-	-	-	20,515
Unreserved, undesignated, reported in:					
General fund	947,195	-	-	-	947,195
Special revenue funds	-	-	-	249,805	249,805
Capital projects funds	-	-	13,989,016	209,820	14,198,836
Total fund balances.	<u>1,710,763</u>	<u>400,499</u>	<u>20,407,286</u>	<u>588,059</u>	<u>23,106,607</u>
Total liabilities and fund balances.	<u>\$ 9,371,437</u>	<u>\$ 1,884,650</u>	<u>\$ 21,122,466</u>	<u>\$ 874,341</u>	<u>\$ 33,252,894</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2004

Total governmental fund balances		\$ 23,106,607
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		5,118,392
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		
Taxes	\$ 139,870	
Accrued interest	<u>4,044</u>	
Total		143,914
Unamortized premiums on bond issuances are not recognized in the funds.		(491,852)
Unamortized bond issue costs are not recognized in the funds.		286,812
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.		
General obligation bonds	22,828,889	
Compensated absences	1,354,801	
Pension obligation payable	158,969	
Capital lease obligations	88,000	
Accrued interest payable	<u>77,780</u>	
Total		<u>(24,508,439)</u>
Net assets of governmental activities		<u>\$ 3,655,434</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	<u>General</u>	<u>Debt Service</u>	<u>Building</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:					
From local sources:					
Taxes	\$ 5,936,178	\$ 1,341,289	\$ -	\$ 163,637	\$ 7,441,104
Tuition	291,281	-	-	-	291,281
Earnings on investments	38,836	3,772	225,173	4,365	272,146
Extracurricular	1,310	-	-	263,407	264,717
Classroom materials and fees	27,972	-	-	-	27,972
Charges for services	-	-	-	427,659	427,659
Other local revenues	48,224	-	-	40,722	88,946
Other revenue	-	-	-	2,000	2,000
Intergovernmental - State	9,678,384	83,791	-	319,223	10,081,398
Intergovernmental - Federal	-	-	-	741,825	741,825
Total revenue	<u>16,022,185</u>	<u>1,428,852</u>	<u>225,173</u>	<u>1,962,838</u>	<u>19,639,048</u>
Expenditures:					
Current:					
Instruction:					
Regular	8,705,163	-	-	238,195	8,943,358
Special	1,658,153	-	-	226,373	1,884,526
Vocational	256,625	-	-	-	256,625
Other	82,274	-	-	-	82,274
Support Services:					
Pupil	635,886	-	-	181,575	817,461
Instructional staff	228,062	-	-	3,429	231,491
Board of education	49,958	-	-	-	49,958
Administration	1,512,616	-	-	-	1,512,616
Fiscal	341,926	14,543	-	2,058	358,527
Operations and maintenance	1,364,174	-	-	56,379	1,420,553
Pupil transportation	965,809	-	-	349	966,158
Central	295,818	-	-	152,093	447,911
Operation of non-instructional services	13,188	-	-	31,825	45,013
Extracurricular activities	261,347	-	-	137,233	398,580
Facilities acquisition and construction	-	-	2,634,552	8,104	2,642,656
Intergovernmental pass through	-	-	-	103,720	103,720
Food service operations	-	-	-	635,053	635,053
Debt service:					
Principal retirement	15,914	390,000	-	67,337	473,251
Interest and fiscal charges	1,868	943,266	-	7,903	953,037
Total expenditures	<u>16,388,781</u>	<u>1,347,809</u>	<u>2,634,552</u>	<u>1,851,626</u>	<u>22,222,768</u>
Net change in fund balances	(366,596)	81,043	(2,409,379)	111,212	(2,583,720)
Fund balance at beginning of year	2,092,557	319,456	22,816,665	474,704	25,703,382
Increase (decrease) in reserve for inventory	(15,198)	-	-	2,143	(13,055)
Fund balances at end of year	<u>\$ 1,710,763</u>	<u>\$ 400,499</u>	<u>\$ 20,407,286</u>	<u>\$ 588,059</u>	<u>\$ 23,106,607</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

Net change in fund balances - total governmental funds	\$	(2,583,720)
<i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays (\$2,323,021) exceeds depreciation expense (\$302,554) in the current period.		2,020,467
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		(808,012)
The net effect of various miscellaneous transactions involving capital assets (i.e. sales, disposals, trade-ins, and donations) is to decrease net assets.		(13,273)
In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.		(122,791)
Premiums on bond issuances are recognized as revenues in the governmental funds, however, they are amortized over the life of the bonds on the statement of activities.		19,352
Bond issuance costs are recognized as expenditures in the governmental funds, however, they are amortized over the life of the bonds on the statement of activities.		(11,284)
Principal payments on bonds and capital lease obligations are reported as expenditures in governmental funds, but the repayment reduces long-term liabilities on the statement of net assets.		473,251
Governmental funds report expenditures for inventory when purchased, however, on the statement of activities, they are reported as expenditures when consumed.		(13,055)
Some expenses reported in the statement of activities, such as compensated absences and pension obligations, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		(115,533)
		<hr style="border-top: 1px solid black;"/>
Change in net assets of governmental activities	\$	(1,154,598)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues:				
From local sources:				
Taxes	\$ 6,038,787	\$ 5,927,939	\$ 6,038,335	\$ 110,396
Tuition	253,500	285,956	291,281	5,325
Earnings on investments	32,500	32,817	33,428	611
Extracurricular	1,300	1,286	1,310	24
Classroom materials and fees	24,750	27,461	27,972	511
Other local revenues	39,200	48,342	49,242	900
Intergovernmental - state	9,125,000	9,515,686	9,678,384	162,698
Total revenue	<u>15,515,037</u>	<u>15,839,487</u>	<u>16,119,952</u>	<u>280,465</u>
Expenditures:				
Current:				
Instruction:				
Regular	9,061,352	9,034,155	8,860,740	173,415
Special	1,730,497	1,813,986	1,692,185	121,801
Vocational	262,190	299,060	256,385	42,675
Other	84,137	83,960	82,274	1,686
Support Services:				
Pupil	682,655	819,963	667,541	152,422
Instructional staff	230,148	248,743	225,053	23,690
Board of education	49,680	56,662	48,580	8,082
Administration	1,548,189	1,525,098	1,513,913	11,185
Fiscal	353,056	347,182	345,240	1,942
Operations and maintenance	1,453,944	1,555,206	1,421,755	133,451
Pupil transportation	1,104,151	1,113,171	1,079,706	33,465
Central	323,773	354,263	316,605	37,658
Operation of non-instructional services	16,376	21,530	16,013	5,517
Extracurricular activities	270,710	294,853	264,717	30,136
Facilities acquisition and construction	8,754	8,560	8,560	-
Total expenditures	<u>17,179,612</u>	<u>17,576,392</u>	<u>16,799,267</u>	<u>777,125</u>
Excess of revenues under expenditures	<u>(2,061,355)</u>	<u>(1,340,125)</u>	<u>(679,315)</u>	<u>1,057,590</u>
Other financing uses:				
Refund of prior year expenditure	-	-	(10)	(10)
Total other financing uses	<u>-</u>	<u>-</u>	<u>(10)</u>	<u>(10)</u>
Net change in fund balance	(2,061,355)	(1,340,125)	(679,325)	1,057,580
Fund balance at beginning of year	2,724,316	2,724,316	2,724,316	-
Prior year encumbrances appropriated	923,515	923,515	923,515	-
Fund balance at end of year	<u>\$ 1,586,476</u>	<u>\$ 2,307,706</u>	<u>\$ 2,968,506</u>	<u>\$ 1,057,580</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2004

	Agency
Assets:	
Equity in pooled cash and cash equivalents	\$ 80,814
Total assets	\$ 80,814
Liabilities:	
Accounts payable	\$ 441
Due to students.	80,373
Total liabilities.	\$ 80,814

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT

The Northwest Local School District (the "District") is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The District is a local district as defined by Section 3311.03 of the Ohio Revised Code. The District is governed by a five-member board of education (the Board) elected by its citizens, which is responsible for the provision of public education to residents of the District.

The District ranks as the 213th largest by total enrollment among the 613 public and community school districts in the State. The District employs 110 non-certified and 166 certified employees to provide services to approximately 2,286 students in grades K through 12 and various community groups. The District operates three elementary schools, one middle school, and a high school.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The District also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, to its governmental activities provided they do not conflict with or contradict GASB pronouncements. The District's significant accounting policies are described below.

A. Reporting Entity

The reporting entity has been defined in accordance with GASB Statement No. 14, "The Financial Reporting Entity". The reporting entity is composed of the primary government, component units and other organizations that are included to ensure that the basic financial statements of the District are not misleading. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the District. For the District, this includes general operations, food service, and student related activities of the District.

Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the organizations' governing board and (1) the District is able to significantly influence the programs or services performed or provided by the organization; or (2) the District is legally entitled to or can otherwise access the organizations resources; or (3) the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; (4) or the District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the District in that the District approves the budget, the issuance of debt or the levying of taxes. Based upon the application of this criteria, the District has no component units. The basic financial statements of the reporting entity include only those of the District (the primary government). The following organizations are described due to their relationship to the District:

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

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

JOINTLY GOVERNED ORGANIZATIONS

Stark/Portage Area Computer Consortium (SPARCC)

SPARCC is a jointly governed organization created as a regional council of governments pursuant to State Statutes made up of public school districts and county boards of education from Stark, Portage, and Carroll Counties. The primary function of SPARCC is to provide data processing services to its member districts with an emphasis being placed on accounting, inventory control and payroll services. Other areas of service provided by SPARCC include student scheduling, registration, grade reporting, and test scoring. Each member district pays an annual fee for the services provided by SPARCC.

SPARCC is governed by a board of directors comprised of each Superintendent within the Consortium. The Stark County Educational Service Center serves as the fiscal agent of the Consortium and receives funding from the State Department of Education. Each district has one vote in all matters and each member district's control over budgeting and financing of SPARCC is limited to its voting authority and any representation it may have on the board of directors. The continued existence of SPARCC is not dependent on the District's continued participation and no equity interest exists. Financial information can be obtained by writing the Stark/Portage Area Computer Consortium, 2100 38th Street NW, Canton, Ohio 44709.

Stark County Joint Vocational School (JVS)

The JVS is a distinct political subdivision of the State of Ohio operated under the direction of a seven member Board, consisting of one representative from each of the six participating district's boards, one board member that rotates from each participating district, and has its own budgeting and taxing authority. The JVS provides vocational education programs to students of the District. The Financial information can be obtained by writing the Stark County Joint Vocational School, 6805 Richville Drive, S.W., Massillon, Ohio 44646.

PUBLIC ENTITY RISK POOLS

Risk Sharing Pool

The Stark County Schools Council of Governments Health Benefit Plan (the "Consortium") is a shared risk pool created pursuant to State statute for the purpose of administering health care benefits. The consortium is governed by an assembly which consists of one representative from each participating school district (usually the superintendent or designee). The assembly elects officers for one year terms to serve on the Board of Directors. The assembly exercises control over the operation of the Consortium. All Consortium revenues are generated from charges for services.

Insurance Purchasing Pool

The Stark County Schools Council of Governments Workers' Compensation Group Rating Plan has created a group insurance pool for the purpose of creating a group rating plan for workers' compensation. The group is comprised of the treasurers of the member schools who have been appointed by the respective governing body of each member school.

The intent of the pool is to achieve a reduced rate for the District by grouping with other members of the group. The injury claim history of all participating members is used to calculate a common rate for the group. An annual fee is paid to Comp Management, Inc. to administer the group and to manage any injury claims. Premium savings created by the group are prorated to each member annually based on its payroll percent of the group.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

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

B. Fund Accounting

The District uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self balancing set of accounts. There are three categories of funds: governmental, proprietary and fiduciary.

GOVERNMENTAL FUNDS

Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the District's major governmental funds:

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

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

Building Fund - The building fund is used to account for the receipts and expenditures related to the District's bond issue. Expenditures recorded here represent the costs of acquiring and improving capital facilities, including real property.

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

PROPRIETARY FUNDS

Proprietary funds are used to account for the District's ongoing activities which are similar to those often found in the private sector. The District has no proprietary funds.

FIDUCIARY FUNDS

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the District's own programs. The District does not have any trust funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The District's agency fund accounts for student activities.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

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

C. Basis of Presentation and Measurement Focus

Government-wide Financial Statements - The statement of net assets and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the governmental activities of the District. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include amounts paid by the recipient of goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues not classified as program revenues are presented as general revenues of the District.

The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the District are included on the statement of net assets.

Fund Financial Statements - Fund financial statements report detailed information about the District. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column, and all nonmajor funds are aggregated into one column. Fiduciary funds are reported by fund type.

All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

Agency funds do not report a measurement focus as they do not report operations.

D. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Fiduciary funds also use the accrual basis of accounting.

Revenues - Exchange and Non-exchange Transactions - Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within sixty days of fiscal year-end.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

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

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (See Note 5). Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at fiscal year-end: property taxes available as an advance, interest, tuition, grants, student fees and rentals.

Deferred Revenue - Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Property taxes for which there is an enforceable legal claim as of June 30, 2004, but which were levied to finance fiscal year 2005 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

On governmental fund financial statements, receivables that will not be collected within the available period have also been reported as deferred revenue.

Expenses/Expenditures - On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities received during the year is reported in the fund financial statements as an expenditure with a like amount reported as intergovernmental revenue.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocation of cost, such as depreciation and amortization, are not recognized in governmental funds.

E. Budgets

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriation resolution, all of which are prepared on the budgetary basis of accounting. The Certificate of Estimated Resources and the Appropriations Resolution are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified. All funds, other than agency funds, are legally required to be budgeted and appropriated. The legal level of budgetary control has been established at the fund level for all funds. Any budgetary modifications at this level may only be made by resolution of the Board of Education. Although the legal level of budgetary control was established at the fund level of expenditures, the District has elected to present the general fund's budgetary statement comparison at the fund and function level of expenditures.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

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

Tax Budget:

Prior to January 15, the Superintendent and Treasurer submit to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing for all funds. Public hearings are publicized and conducted to obtain taxpayers' comments. The express purpose of this budget document is to reflect the need for existing (or increased tax rates). By no later than January 20, the Board-adopted budget is filed with Stark County Budget Commission for rate determination.

Estimated Resources:

By April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the Commissions' certificate of estimated resources, which states the projected revenue of each fund. Prior to June 30, the District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the certificate of estimated resources. The revised budget then serves as the basis for the appropriation measure. On or about July 1, the certificate is amended to include any unencumbered cash balances from the preceding year. The certificate may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The amounts reported in the budgetary statements reflect the amounts from the certificate of amended resources that was in effect at the time the final appropriations were passed by the Board of Education.

Appropriations:

Upon receipt from the County Auditor of an amended certificate of estimated resources based on final assessed values and tax rates or a certificate saying no new certificate is necessary, the annual appropriation resolution is enacted by the Board of Education. Prior to the passage of the annual appropriation measure, the Board may pass a temporary appropriation measure to meet the ordinary expenses of the District. The appropriation resolution, at the fund level for all funds, must be within the estimated resources as certified by the County Budget Commission and the total of expenditures may not exceed the appropriation totals at any level of control. Any revisions that alter the level of budgetary control must be approved by the Board of Education.

The Board may pass supplemental fund appropriations so long as the total appropriations by fund do not exceed the amounts set forth in the most recent certificate of estimated resources. During the year, all supplemental appropriations were legally enacted.

The appropriation resolution is subject to amendment by the Board throughout the year with the restriction that appropriations may not exceed estimated revenues. The amounts reported as the original budget amounts reflect the first appropriation for that fund covered the entire fiscal year, including amounts automatically carried over from prior year. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by the Board during the year.

Lapsing of Appropriations:

At the close of each fiscal year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriation. Encumbered appropriations are carried forward to the succeeding fiscal year and are not reappropriated.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

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

F. Cash and Investments

To improve cash management, cash received by the District is pooled in a central bank account. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through the District's records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" on the basic financial statements.

During fiscal year 2004, investments were limited to overnight repurchase agreements, nonnegotiable certificates of deposit, and investments in the State Treasury Asset Reserve of Ohio (STAR Ohio). Except for nonparticipating investment contracts, investments are reported at fair value, which is based on quoted market prices. Nonparticipating investment contracts such as repurchase agreements and nonnegotiable certificates of deposit are reported at cost.

The District has invested funds in STAR Ohio during fiscal 2004. STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the state to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on June 30, 2004.

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund. The Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2004 amounted to \$38,836, which includes \$2,588 assigned from other District funds.

For presentation on the basic financial statements, investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the District are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

An analysis of the Treasurer's investment account at fiscal year-end is provided in Note 4.

G. Inventory

On government-wide and fund financial statements, inventories are presented at the lower of cost or market on a first-in, first-out basis and are expensed when used. Inventories are accounted for using the purchase method.

On the fund financial statements, reported material and supplies inventory is equally offset by a fund balance reserve in the governmental funds which indicates that it does not constitute available spendable resources even though it is a component of net current assets.

Inventory consists of expendable supplies held for consumption, donated food and purchased food.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

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

H. Capital Assets

General capital assets are those assets specifically related to governmental activities. These assets result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The District maintains its capitalization threshold at \$3,500. Books, records, movies, and other learning aids kept at the District Library are not included for reporting purposes. The District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

All reported capital assets except land and construction in progress are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Activities Estimated Lives</u>
Buildings and improvements	5 - 50 years
Furniture and equipment	5 - 20 years
Vehicles	6 - 8 years

I. Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables." These amounts are eliminated in the governmental activities column on the statement of net assets. At June 30, 2004, the District had no interfund balances.

J. Compensated Absences

The District reports compensated absences in accordance with the provisions of GASB No. 16, "Accounting for Compensated Absences". Vacation benefits are accrued as a liability as the benefits are earned if the employee's rights to receive compensation are attributable to services already rendered and it is probable that the District will compensate the employees for the benefits through paid time off or some other means. Sick leave benefits are accrued as a liability using the vesting method. The liability is based on the sick leave accumulated at June 30, by those employees who are currently eligible to receive termination benefits and by those employees who are expected to become eligible in the future. For purposes of establishing a liability for severance on employees expected to become eligible to retire in the future, all employees with 10 years service at any age were considered expected to become eligible to retire in accordance with GASB Statement No. 16.

The entire compensated absence liability is reported on the government-wide financial statements.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

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

For governmental fund financial statements, compensated absences are recognized as liabilities and expenditures as payments come due each period upon the occurrence of employee resignations and retirements.

K. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements.

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, claims and judgments, compensated absences, and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year.

L. Fund Balance Reserves

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

M. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consist of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

The District applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

N. Prepayments

Certain payments to vendors reflect the costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. These items are reported as assets using the consumption method. A current asset for the prepaid amounts is recorded at the time of the purchase and the expenditure/expense is reported in the year in which services are consumed. At fiscal year-end, because prepayments are not available to finance future governmental fund expenditures, the fund balance is reserved on the fund financial statements by an amount equal to the carrying value of the asset.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

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

O. Estimates

The preparation of the basic financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the basic financial statements and accompanying notes. Actual results may differ from those estimates.

P. Restricted Assets

Assets are reported as restricted assets when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments or imposed by enabling legislation. Restricted assets include the amount required by state statute to be set-aside for State monies received for school bus purchases. See Note 17 for additional information regarding set-asides.

Q. Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the basic financial statements.

Interfund activity between governmental funds are eliminated in the statement of activities. The District did not have any interfund activity during fiscal 2004.

R. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal 2004.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

Deficit Fund Balances

Fund balances at June 30, 2004 included the following individual fund deficits:

<u>Nonmajor Governmental Funds</u>	<u>Deficit</u>
Title I	\$ 6,800
Reducing Class Size	9,102

These funds complied with Ohio state law, which does not permit a cash basis deficit at year-end. The general fund is liable for any deficits in these funds and provides transfers when cash is required, not when accruals occur. These deficit fund balances result from adjustments for accrued liabilities.

NOTE 4 - EQUITY IN POOLED CASH AND CASH EQUIVALENTS

The District maintains a cash and investment pool used by all funds. Each fund type's portion of this pool is displayed on the basic financial statements as "Equity in Pooled Cash and Cash Equivalents". Statutes require the classification of monies held by the District into three categories.

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

Inactive deposits are public deposits the Board of Education has 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 deposits of interim monies. Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings accounts, including passbook accounts.

Protection of the District's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the finance 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 may be deposited or invested in the following securities:

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal or interest by the United States;

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

NOTE 4 - EQUITY IN POOLED CASH AND CASH EQUIVALENTS - (Continued)

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 2% and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in 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 Treasury Asset Reserve of Ohio (STAR Ohio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed 180 days in an amount not the exceed 25% of the interim monies available for investment at any one time; and
8. Under limited circumstances, corporate debt instrument 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 investments may be made only upon delivery of the securities representing the investments to the Treasurer or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

Cash on Hand: At year-end, the District had \$3,000 in undeposited cash on hand which is included on the financial statements as part of "Equity in Pooled Cash and Cash Equivalents".

The following information classifies deposits and investments by categories of custodial credit risk as defined in GASB Statement No. 3, "Deposits with Financial Institutions, Investments and Reverse Repurchase Agreements".

Deposits: At year-end, the carrying amount of the District's deposits was \$3,701,748 and the bank balance was \$3,823,283. Of the bank balance:

1. \$200,000 was covered by federal depository insurance; and

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

NOTE 4 - EQUITY IN POOLED CASH AND CASH EQUIVALENTS - (Continued)

2. \$3,623,283 was uninsured and unregistered as defined by GASB although it was secured by collateral held by third party trustees, pursuant to section 135.181 Ohio Revised Code, in collateralized pools securing all public funds on deposit with specific depository institutions; these securities not being in the name of the District. Although all State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements would potentially subject the District to a successful claim by the FDIC.

Collateral is required for demand deposits and certificates of deposit in excess of all deposits not covered by federal depository insurance. Obligations that may be pledged as collateral are obligations of the United States and its agencies, obligations of the State of Ohio and its municipalities, and obligations of the other states. Obligations pledged to secure deposits must be delivered to a bank other than the institution in which the deposit is made. Written custodial agreements are required.

Investments: The District's investments are categorized below to give an indication of the level of custodial credit risk assumed by the entity at fiscal year-end. Category 1 includes investments that are insured or registered or securities held by the District. Category 2 includes uninsured and unregistered investments for which the securities 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, but not in the District's name. Investments in STAR Ohio are not categorized as they are not evidenced by securities that exist in physical or book entry form.

	Reported Amount	Fair Value
Investment in STAR Ohio	\$ 21,695,693	\$ 21,695,693
Total investments	\$ 21,695,693	\$ 21,695,693

The classification of cash and cash equivalents and investments on the basic financial statements is based on criteria set forth in GASB Statement No. 9. A reconciliation between the classifications of cash and investments on the basic financial statements and the classification per GASB Statement No. 3 is as follows:

	Cash and Cash Equivalents/Deposits	Investments
GASB Statement No. 9	\$25,400,441	\$ -
Investments of the cash management pool:		
Investment in STAR Ohio	(21,695,693)	21,695,693
Cash on hand	(3,000)	-
GASB Statement No. 3	\$ 3,701,748	\$21,695,693

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

NOTE 5 - PROPERTY TAXES

Property taxes are levied and assessed on a calendar year basis while the District fiscal year runs from July through June. First half tax collections are received by the District in the second half of the fiscal year. Second half tax distributions occur in the first half of the following fiscal year.

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the District. Real property tax revenue received in calendar 2004 represents collections of calendar year 2003 taxes. Real property taxes received in calendar year 2004 were levied after April 1, 2003, on the assessed value listed as of January 1, 2003, the lien date. Assessed values for real property taxes are established by State law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar 2004 represents collections of calendar year 2003 taxes. Public utility real and tangible personal property taxes received in calendar year 2004 became a lien December 31, 2002, were levied after April 1, 2003 and are collected in 2004 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

Tangible personal property tax revenue received during calendar 2004 (other than public utility property) represents the collection of 2004 taxes. Tangible personal property taxes received in calendar year 2004 were levied after April 1, 2004, on the value as of December 31, 2003. Tangible personal property is currently assessed at twenty-five percent of true value for capital assets and twenty-four percent of true value for inventory. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the District prior to June 30.

The District receives property taxes from Summit, Stark, and Wayne Counties. The Fiscal Officer/County Auditor periodically advances to the District the portion of the taxes collected. Second-half real property tax payments collected by the Fiscal Officer/County Auditor by June 30, 2004, are available to finance fiscal year 2004 operations. The amount available as an advance at June 30, 2004 was \$428,086 in the general fund, \$113,016 in the debt service fund and \$8,507 in the Permanent Improvement capital projects fund. The amount that was available as advance at June 30, 2003 was \$530,243 in the general fund, \$137,980 in the debt service fund and \$11,434 in the Permanent Improvement capital projects fund.

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2004 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year-end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue.

On a full accrual basis, collectible delinquent property taxes have been recorded as a receivable and revenue, while on a modified accrual basis the revenue has been deferred.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

NOTE 5 - PROPERTY TAXES - (Continued)

The assessed values upon which the fiscal year 2004 taxes were collected are:

	2003 Second Half Collections		2004 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/Residential and Other Real Estate	\$ 191,336,300	90.45	\$ 224,457,590	92.42
Public Utility Personal	7,910,220	3.74	7,781,190	3.20
Tangible Personal Property	<u>12,284,150</u>	<u>5.81</u>	<u>10,646,917</u>	<u>4.38</u>
Total	<u>\$ 211,530,670</u>	<u>100.00</u>	<u>\$ 242,885,697</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation for:				
Operations	\$53.20		\$52.60	
Permanent improvements	3.00		3.00	
Debt Service	7.00		7.00	

NOTE 6 - RECEIVABLES

Receivables at June 30, 2004 consisted of taxes, accounts (billings for user charged services and student fees), accrued interest, and intergovernmental grants and entitlements. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of state programs and the current year guarantee of Federal funds. A summary of the principal items of receivables reported on the statement of net assets follows:

Governmental Activities	
Taxes	\$ 7,862,801
Accounts	496
Intergovernmental	25,021
Accrued interest	<u>10,563</u>
Total	<u>\$ 7,898,881</u>

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

NOTE 7 - LEASING ARRANGEMENTS

The District leases the following equipment under noncancelable operating leases: copier machines, 60-month leases, administrative building, 36 -month leases. These leases are operating in nature and require minimum monthly rental payments. The equipment under the operating leases are not financed under a lease-purchase type arrangement.

The following is a schedule of future minimum rental payments required under the above operating leases as of June 30, 2004:

<u>June 30</u>	<u>Amount</u>
2005	\$ 44,792
2006	11,312
2007	<u>5,647</u>
Total	<u>\$ 61,751</u>

Rental expenses amounted to \$44,792 for the fiscal year ended June 30, 2004.

NOTE 8 - CAPITALIZED LEASES - LESSEE DISCLOSURE

In a prior year, the District entered into a capitalized lease agreement for the acquisition of computers and printers, servers and networking equipment.

These leases meet the criteria of a capital lease as defined by FASB Statement No. 13, "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee at the conclusion of the lease term. At inception, the leases were accounted for as a capital outlay expenditure and other financing source in the general fund. Capital lease payments have been reclassified and are reflected as debt service expenditures in the fund financial statements and as a reduction of the lease liability in the government-wide financial statements. These expenditures are reflected as program/function expenditures on a budgetary basis.

During fiscal 2004, capital assets acquired by lease have been expensed in the statement of activities as the items acquired do not individually meet the Districts capitalized threshold. A liability in the amount of \$88,000 was recorded in the statement of net assets. Principal payments in the 2004 fiscal year totaled \$83,251. This amount is reflected as debt service principal retirement in the general fund and Schoolnet capital projects fund.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

NOTE 8 - CAPITALIZED LEASES - LESSEE DISCLOSURE - (Continued)

The following is a schedule of the future minimum lease payments required under the capital leases and the present value of the future minimum lease payments as of June 30, 2004.

<u>Year Ending June 30</u>	<u>Amount</u>
2005	<u>\$93,021</u>
Total minimum lease payment	93,021
Less: amount representing interest	<u>(5,021)</u>
Present value of minimum lease payments	<u>\$ 88,000</u>

NOTE 9 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2004, was as follows:

	<u>Balance July 1, 2003</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2004</u>
Governmental Activities				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 133,138	\$ -	\$ -	\$ 133,138
Construction in progress	<u>443,891</u>	<u>1,988,352</u>	<u>-</u>	<u>2,432,243</u>
Total capital assets, not being depreciated	<u>577,029</u>	<u>1,988,352</u>	<u>-</u>	<u>2,565,381</u>
<i>Capital assets, being depreciated:</i>				
Buildings and improvements	5,338,405	-	(16,000)	5,322,405
Furniture and equipment	1,270,499	116,445	(11,866)	1,375,078
Vehicles	<u>1,483,657</u>	<u>218,224</u>	<u>(103,393)</u>	<u>1,598,488</u>
Total capital assets, being depreciated	<u>8,092,561</u>	<u>334,669</u>	<u>(131,259)</u>	<u>8,295,971</u>
<i>Less: accumulated depreciation</i>				
Buildings and improvements	(3,575,889)	(87,448)	2,727	(3,660,610)
Furniture and equipment	(996,662)	(74,035)	11,866	(1,058,831)
Vehicles	<u>(985,841)</u>	<u>(141,071)</u>	<u>103,393</u>	<u>(1,023,519)</u>
Total accumulated depreciation	<u>(5,558,392)</u>	<u>(302,554)</u>	<u>117,986</u>	<u>(5,742,960)</u>
Governmental activities capital assets, net	<u>\$ 3,111,198</u>	<u>\$ 2,020,467</u>	<u>\$ (13,273)</u>	<u>\$ 5,118,392</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

NOTE 9 - CAPITAL ASSETS - (Continued)

Depreciation expense was charged to governmental functions as follows:

Instruction:

Regular	\$ 108,517
Special	5,807
Vocational	789

Support Services:

Pupil	495
Instructional staff	1,286
Administration	4,401
Fiscal	1,515
Operations and maintenance	17,756
Pupil transportation	127,195
Central	2,864
Extracurricular activities	23,464
Food service operations	<u>8,465</u>

Total depreciation expense \$ 302,554

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

NOTE 10 - LONG-TERM OBLIGATIONS

	<u>Balance Outstanding July 1, 2003</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance Outstanding June 30, 2004</u>	<u>Amount Due in One Year</u>
<u>General Obligation Bonds:</u>					
Series 2002, Improvement Current Interest Bonds 12/01/29 maturity	\$21,930,000	\$ -	\$ (390,000)	\$ 21,540,000	\$ 600,000
Series 2002, Improvement Capital Appreciation Bonds 11.372% (average effective) 12/01/06 to 12/01/08 maturity	1,069,986	-	-	1,069,986	-
Series 2002, Improvement Capital Appreciation Bonds Accreted interest	<u>84,033</u>	<u>134,870</u>	<u>-</u>	<u>218,903</u>	<u>-</u>
Total, general obligation bonds	<u>23,084,019</u>	<u>134,870</u>	<u>(390,000)</u>	<u>22,828,889</u>	<u>600,000</u>
<u>Other Obligations:</u>					
Capital lease obligations	171,251	-	(83,251)	88,000	88,000
Compensated absences	<u>1,320,304</u>	<u>215,119</u>	<u>(142,723)</u>	<u>1,392,700</u>	<u>75,217</u>
Total, other obligations	<u>1,491,555</u>	<u>215,119</u>	<u>(225,974)</u>	<u>1,480,700</u>	<u>163,217</u>
Total, all governmental activities long-term liabilities	<u>\$24,575,574</u>	<u>\$ 349,989</u>	<u>\$ (615,974)</u>	24,309,589	<u>\$ 763,217</u>
Add: Unamortized premium on bond issuance				<u>491,852</u>	
Total reported on the statement of net assets				<u>\$ 24,801,441</u>	

The capital lease obligation will be paid from the general fund and the non major governmental funds. Compensated absences will be paid from the fund from which the employee is paid.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

NOTE 10 - LONG-TERM OBLIGATIONS - (Continued)

Series 2002 School Improvement General Obligation Bonds

During fiscal 2003, the voters of the District authorized the issuance of \$22,999,986 in general obligation bonds, for the purpose of constructing, furnishing and equipping a new elementary school and an addition to the high school and renovating, constructing, furnishing, equipping and otherwise improving school facilities and acquiring and improving their sites. These bonds will be retired from proceeds of a 7.0 mill bonded debt tax levy. The proceeds of the bond issuance were used to retire the previously issued bond anticipation notes described above.

These bonds represent the amount of the construction project that the District itself was required to finance, in accordance with the terms and conditions of a facilities grant from the Ohio School Facilities Commission (OSFC). Under the terms of the agreement, the District will pay all of the initial construction costs and the OSFC will reimburse the District upon qualification to participate in the OSFC program.

The Series 2002 school improvement general obligation bond issue is comprised of both current interest serial and term bonds, par value \$21,930,000, and capital appreciation bonds, par value \$1,890,000. The capital appreciation bonds mature on each December 1, 2006 through 2008 (effective interest 11.372%) at a redemption price equal to 100% of the principal, plus accrued interest to the redemption date. The present value (as of issue date) reported in the statement of net assets at June 30, 2004 was \$1,069,986. Total accreted interest of \$218,903 has been included in the statement of net assets at June 30, 2004. The current interest bonds maturing on or after December 1, 2012 are subject to early redemption at the sole option of the District, at the following redemption prices, plus accrued interest:

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

Mandatory sinking fund requirements for the current interest term bonds occur on December 1, 2020 and 2021 and on December 1, in each of the years 2023 through 2028. Interest payments on the current interest bonds are due on June 1 and December 1 of each year. The final maturity stated in the issue is December 1, 2029.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

NOTE 10 - LONG-TERM OBLIGATIONS - (Continued)

Principal and interest requirements to retire the general obligation bonds outstanding at June 30, 2004 are as follows:

Fiscal Year Ending June 30	Current Interest General Obligation Bonds			Capital Appreciation General Obligation Bonds		
	Principal	Interest	Total	Principal	Interest	Total
2005	\$ 600,000	\$ 933,365	\$ 1,533,365	\$ -	\$ -	\$ -
2006	640,000	914,565	1,554,565	-	-	-
2007	-	901,765	901,765	630,000	-	630,000
2008	-	901,765	901,765	630,000	-	630,000
2009	-	901,765	901,765	630,000	-	630,000
2010 - 2014	3,385,000	4,212,417	7,597,417	-	-	-
2015 - 2019	4,050,000	3,513,682	7,563,682	-	-	-
2020 - 2024	5,035,000	2,497,826	7,532,826	-	-	-
2025 - 2029	6,370,000	1,130,975	7,500,975	-	-	-
2030	1,460,000	34,675	1,494,675	-	-	-
Total	\$ 21,540,000	\$ 15,942,800	\$ 37,482,800	\$ 1,890,000	\$ -	\$ 1,890,000

NOTE 11 - OTHER EMPLOYEE BENEFITS

A. Compensated Absences

The criteria for determining vacation and sick leave components are derived from negotiated agreements and State laws. Administrative and 260 day employees earn ten to twenty days of vacation per fiscal year, depending upon length of service. Accumulated, unused vacation time is paid to classified employees and administrators upon termination of employment. Teachers do not earn vacation time. Teachers, administrators, and classified employees earn sick leave at the rate of one and one-fourth days per month. Upon retirement, classified employees are entitled to one-fourth of unused sick leave for the first 120 days of unused sick leave and one-tenth of unused sick leave in excess of 120 days. Upon retirement, certified employees are entitled to one-third of unused sick leave for the first 120 days of unused sick leave and one-tenth of unused sick leave in excess of 120 days. Certified severance has a maximum of 56 days.

B. Insurance Benefits

The District provides life insurance and accidental death and dismemberment insurance to most employees through Stark County Council of Governments Health Benefits Program. Coverage in the amount of \$50,000 and \$40,000 is provided for all certified and classified employees, respectively.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

NOTE 12 - RISK MANAGEMENT

A. Property

The District is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions; injuries to employees and natural disasters. During fiscal year 2004, the District maintained comprehensive insurance coverage with private carriers for real property, building contents and vehicles. Vehicle policies include liability coverage for bodily injury and property damage. Real property and contents are 90% coinsured.

Settled claims have not exceeded the commercial coverage in any of the past three years and there have been no significant reductions in insurance coverage from last year.

B. Employee Health Benefits

The District has contracted with Stark County Schools Council of Government (a shared risk pool) (Note 2) to provide employee medical/surgical benefits. Rates are set through an annual calculation process. The District pays a monthly contribution which is placed in a common fund from which claim payments are made for all participating districts. The District's Board of Education pays the 95% of the cost of a monthly premium for certified employees and 90% of the cost of a monthly premium for classified employees. For fiscal year 2004, the District cost paid for premium for medical and dental was \$619.96 for family coverage and \$255.20 for single coverage, per month.

Claims are paid for all participants regardless of claims flow. Upon termination, all District claims would be paid without regard to the District's account balance. The Directors have the right to hold monies for an exiting district subsequent to the settlement of all expenses and claims.

C. Workers' Compensation

The District participates in the Stark County Schools Council of Governments Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 2). The intent of the GRP is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating districts is calculated as one experience and a common premium rate is applied to all districts in the GRP.

Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percent of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "Equity Pooling Fund" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to districts that can meet the GRP's selection criteria. The firm of Comp Management, Inc. provides administrative, cost control and actuarial services to the GRP.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

NOTE 13 - DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing, multiple-employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by State Statute Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476, or by calling (614) 222-5853.

Plan members are required to contribute 10% of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14% of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2004, 9.09% of annual covered salary was the portion used to fund pension obligations. For fiscal year 2003, 8.17% of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The adequacy of the contribution rates is determined annually. The District's required contributions to SERS for the fiscal years ended June 30, 2004, 2003, and 2002 were \$311,063, \$297,881, and \$273,900, respectively; 44.80% has been contributed for fiscal year 2004 and 100% for the fiscal years 2003 and 2002. \$171,720, represents the unpaid contribution for fiscal year 2004.

B. State Teachers Retirement System

The District contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing, multiple-employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides retirement and disability benefits, annual cost-of-living adjustments, and death and survivor benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. 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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

NOTE 13 - DEFINED BENEFIT PENSION PLANS - (Continued)

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5% of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

A DB or Combined Plan member with five or more years credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Plan members are required to contribute 10% of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14% of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2004, 13% of annual covered salary was the portion used to fund pension obligations. For fiscal year 2003, 13% of annual covered salary was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employee contributions. The District's required contributions to the DB Plan for the fiscal years ended June 30, 2004, 2003, and 2002 were \$1,231,792, \$1,184,907, and \$1,068,264, respectively; 83.05% has been contributed for fiscal year 2004 and 100% for the fiscal years 2003 and 2002. \$208,728 represents the unpaid contribution for fiscal year 2004. Contributions to the DC and Combined Plans for fiscal year 2004 were \$5,000 made by the District and \$20,593 made by the plan members.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement Systems/State Teachers Retirement System. The District's liability is 6.2% of wages paid. For fiscal 2004, three members of the Board of Education elected social security.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

NOTE 14 - POSTEMPLOYMENT BENEFITS

The District provides comprehensive health care benefits to retired teachers and their dependents through STRS, and to retired non-certified employees and their dependents through SERS. Benefits include hospitalization, physicians' fees, prescription drugs, and partial reimbursement of monthly Medicare Part B premiums. Benefit provisions and the obligations to contribute are established by STRS and SERS based on authority granted by state statute. Both STRS and SERS are funded on a pay-as-you-go-basis.

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14% of covered payroll. For this fiscal year, the State Teachers Retirement Board allocated employer contributions equal to 1% of covered payroll to the Health Care Reserve fund. For the District, this amount equaled \$87,985 during fiscal 2004.

STRS pays health care benefits from the Health Care Stabilization Fund. The balance in the Health Care Stabilization Fund was \$3.1 billion at June 30, 2004. For the fiscal year ended June 30, 2004, net health care costs paid by STRS were \$268.739 million and STRS had 111,853 eligible benefit recipients.

For SERS, coverage is made available to service retirees with 10 or more years of qualifying service credit, and disability and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than 25 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 percent of the premium.

For this fiscal year, employer contributions to fund health care benefits were 4.91% of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2004, the minimum pay has been established at \$25,400. 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.

The target level for the health care reserve is 150% of annual health care expenses. Expenses for health care at June 30, 2004 were \$223.444 million and the target level was \$335.2 million. At June 30, 2004, SERS had net assets available for payment of health care benefits of \$300.8 million and SERS had approximately 62,000 participants receiving health care benefits. For the District, the amount to fund health care benefits, including surcharge, equaled \$152,254 during the 2004 fiscal year.

NOTE 15 - BUDGETARY BASIS OF ACCOUNTING

While reporting financial position, results of operations, and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts and disbursements.

The Statement of Revenue, Expenditures, and Changes in Fund Balance – Budget and Actual (Non-GAAP Budgetary Basis) presented for the general fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the GAAP basis are that:

- (a) Revenues and other financing sources are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

NOTE 15 - BUDGETARY BASIS OF ACCOUNTING - (Continued)

- (b) Expenditures and other financing uses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);
- (c) In order to determine compliance with Ohio law, and to reserve that portion of the applicable appropriation, total outstanding encumbrances (budget basis) are recorded as the equivalent of an expenditure, as opposed to a reservation of fund balance for that portion of outstanding encumbrances not already recognized as an account payable (GAAP basis).

The adjustments necessary to convert the results of operations for the year on the budget basis to the GAAP basis for the general fund is as follows:

Net Change in Fund Balance

	<u>General Fund</u>
Budget basis	\$ (664,812)
Net adjustment for revenue accruals	(97,767)
Net adjustment for expenditure accruals	127,298
Net adjustment for other sources/uses	10
Adjustment for encumbrances	<u>283,188</u>
GAAP basis	<u>\$ (352,083)</u>

NOTE 16 - CONTINGENCIES

A. Grants

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

B. Litigation

The District is not a party to legal proceedings that would have a material effect on the financial condition of the District.

C. 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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

NOTE 16 - CONTINGENCIES - (Continued)

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 District is currently unable to determine what effect, if any, this decision will have on its future state funding and its financial operations.

NOTE 17 - STATUTORY RESERVES

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

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

	<u>Instructional Materials</u>	<u>Capital Acquisition</u>
Set-aside cash balance as of June 30, 2003	\$ (78,116)	\$ -
Current year set-aside requirement	336,316	336,316
Qualifying disbursements	<u>(318,061)</u>	<u>(1,120,492)</u>
Total	<u>\$ (59,861)</u>	<u>\$ (784,176)</u>
Balance carried forward to FY 2005	<u>\$ (59,861)</u>	<u>\$ -</u>

Although the District had offsets and qualifying disbursements during the year that reduced the set-aside amounts below zero for the capital acquisition reserve, this extra amount may not be used to reduce the set-aside requirement for future years. The negative amount is therefore not presented as being carried forward to the next fiscal year. The amount of qualifying disbursements exceeding the set-aside requirement in the textbooks reserve may be carried forward to reduce the set-aside requirement for future years.

In addition to the above statutory reserves, the District also received monies restricted by State statute for school bus purchases.

A schedule of the restricted assets at June 30, 2004 follows:

Amount restricted for school bus purchases	<u>\$ 44,394</u>
Total restricted assets	<u>\$ 44,394</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

NOTE 18 - CONTRACTUAL COMMITMENTS

As of June 30, 2004, the District had the following contractual commitments outstanding related to the renovation and construction of school facilities. A summary of the primary contractual commitments follows:

<u>Project/Vendor</u>	<u>Total Contract</u>	<u>Amount Paid</u>	<u>Remaining Commitment June 30, 2004</u>
Knoch Construction	\$2,872,283	\$ 442,492	\$ 2,429,791
Moser Construction	784,272	240,854	543,418
Eurocase	155,710	-	155,710
Fire Protection	87,534	16,766	70,768
M.W. Mielke	716,200	36,370	679,830
Feinman Mechanical	295,638	79,706	215,932
Wood Electric	694,907	56,716	638,191
Acy Communications	102,156	-	102,156
Comfort Control	177,191	-	177,191
 Total	 <u>\$5,885,891</u>	 <u>\$ 872,904</u>	 <u>\$ 5,012,987</u>

NORTHWEST LOCAL SCHOOL DISTRICT
STARK COUNTY

SCHEDULE OF RECEIPTS AND EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2004

Federal Grantor/ Pass Through Grantor/ Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Expenditures	Non-Cash Expenditures
<u>U.S. DEPARTMENT OF AGRICULTURE</u>						
<i>Passed Through Ohio Department of Education:</i>						
Child Nutrition Cluster: Food Distribution Program	N/A	10.550		\$52,974		\$52,974
National School Lunch Program	049908	10.555	\$134,360		\$134,360	
Total U.S. Department of Agriculture - Child Nutrition Cluster			<u>134,360</u>	<u>52,974</u>	<u>134,360</u>	<u>52,974</u>
<u>U.S. DEPARTMENT OF EDUCATION</u>						
<i>Passed Through Ohio Department of Education:</i>						
Special Education Cluster: Special Education Grants to States (IDEA Part B)	049908-6B-SF-04 049908-6B-SF-03	84.027	285,060		247,769 2,894	
Total Special Education Cluster			<u>285,060</u>		<u>250,663</u>	
Grants to Local Educational Agencies (ESEA Title I)	049908-C1-S1-04 049908-C1-S1-03	84.010	165,377 -		151,753 10,988	
Total Grants to Local Educational Agencies			<u>165,377</u>		<u>162,741</u>	
Drug-Free Schools Grant	049908-DR-S1-04 049908-DR-S1-03	84.186	8,824		8,009 9,220	
Total Drug-Free Schools Grant			<u>8,824</u>		<u>17,229</u>	
Title VI - Education Consolidation Improvement Act	049908-C2-S1-04	84.298	14,634		12,933	
Technology Literacy Challenge Grant Fund	049908-TJ-S1-04	84.318	7,501		3,008	
Title II-A - Improving Teacher Quality State Grant	049908-TR-S1-04 049908-TR-S1-03	84.367	75,831		75,612 8,678	
Total Title II-A - Improving Teacher Quality State Grant			<u>75,831</u>		<u>84,290</u>	
Total U.S. Department of Education			<u>557,227</u>		<u>530,864</u>	
Totals			<u><u>\$691,587</u></u>	<u><u>\$52,974</u></u>	<u><u>\$665,224</u></u>	<u><u>\$52,974</u></u>

The accompanying notes to this schedule are an integral part of this schedule.

**NORTHWEST LOCAL SCHOOL DISTRICT
STARK COUNTY**

**NOTES TO THE SCHEDULE OF RECEIPTS AND EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2004**

NOTE A – SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Receipts and Expenditures of Federal Awards (the Schedule) is a summary of the activity of the District's federal award programs. The Schedule has been prepared on the cash basis of accounting.

NOTE B – CHILD NUTRITION CLUSTER

Program regulations do not require the District to maintain separate inventory records for purchased food and food received from the U.S. Department of Agriculture. This nonmonetary assistance (expenditures) is reported in the Schedule at the fair market value of the commodities received.

Cash receipts from the U.S. Department of Agriculture are commingled with State grants. It is assumed federal monies are expended first.



Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

Northwest Local School District
Stark County
104 West Market Street
Canal Fulton, Ohio 44614

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Northwest Local School District, Stark County, Ohio, (the District) as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements and have issued our report thereon dated March 31, 2005. 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.

Compliance

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance we must report under *Government Auditing Standards*.

However, we noted certain immaterial instances of noncompliance that we have reported to the District's management in a separate letter dated March 31, 2005.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting to determine our auditing procedures for the purpose of expressing our opinions on the 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 or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatement in amounts that would be material in relation to the 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 matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to the District's management in a separate letter dated March 31, 2005.

101 Central Plaza South / 700 Bank One Tower / Canton, OH 44702
Telephone: (330) 438-0617 (800) 443-9272 Fax: (330) 471-0001
www.auditor.state.oh.us

Northwest Local School District
Stark County
Independent Accountants' Report on Compliance and on
Internal Control Required by *Government Auditing Standards*
Page 2

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

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

Betty Montgomery
Auditor of State

March 31, 2005



Auditor of State Betty Montgomery

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

Northwest Local School District
Stark County
104 West Market Street
Canal Fulton, Ohio 44656

To the Board of Education:

Compliance

We have audited the compliance of the Northwest Local School District, Stark County, Ohio, (the District) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2004. The District's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, 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 the 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 the 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.

However, we noted another matter involving the internal control over financial reporting that does not require inclusion in this report, that we have reported to the District's management in a separate letter dated March 31, 2005.

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



Betty Montgomery
Auditor of State

March 31, 2005

**NORTHWEST LOCAL SCHOOL DISTRICT
STARK COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .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)(ii)	Were there any other reportable 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)?	No
(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 § .510?	No
(d)(1)(vii)	Major Programs (list):	Special Education Cluster-Title VI-B (IDEA Grant) - CFDA #84.027 and #84.173 Grants to Local Educational Agencies (ESEA Title I) - CFDA #84.010
(d)(1)(viii)	Dollar Threshold: Type A\B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	No

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

None

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None

**NORTHWEST LOCAL SCHOOL DISTRICT
STARK COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
OMB CIRCULAR A -133 § .315 (b)
JUNE 30, 2004**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2003-001	Former Treasurer received compensation in excess of board-approved annual salary.	Yes	Finding No Longer Valid as the District did not have this problem with its current treasurer's salary.
2003-002	Former Treasurer received vacation pay-out at a rate which included the boards rate of pick-up for retirement.	Yes	Finding No Longer Valid as the District did not have this problem with its current treasurer's salary.
2003-003	Former Treasurer was compensated on two occasions (after retiring and after being dismissed) based on a rate that included the board's retirement pick-up.	Yes	Finding No Longer Valid as the District did not have this problem with any of its current year severance pay-out.
2003-004	The Superintendent's Administrative Assistant was compensated based on a rate that included the board's retirement pick-up.	Yes	Finding No Longer Valid as the District did not have this problem with any of its current year severance pay-out.
2003-005	The High School Principal was compensated based on a rate that included the board's retirement pick-up.	Yes	Finding No Longer Valid as the District did not have this problem with any of its current year severance pay-out.
2003-006	The Assistant High School Principal was compensated based on a rate that included the board's retirement pick-up.	Yes	Finding No Longer Valid as the District did not have this problem with any of its current year severance pay-out.
2003-007	The former Treasurer submitted classified substitute teacher time cards on her behalf which were paid from federal programs.	Yes	Finding No Longer Valid as the District did not have this problem with any of its current year payroll expenditures.



**Auditor of State
Betty Montgomery**

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140
Telephone 614-466-4514
800-282-0370
Facsimile 614-466-4490

**NORTHWEST LOCAL SCHOOL DISTRICT
STARK COUNTY**

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MAY 10, 2005**