

NORTHWESTERN LOCAL SCHOOL DISTRICT  
SINGLE AUDIT  
YEAR ENDED JUNE 30, 2002





**STATE OF OHIO**  
**OFFICE OF THE AUDITOR**

JIM PETRO, AUDITOR OF STATE

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

We have reviewed the Independent Auditor's Report of the Northwestern Local School District, Wayne County, prepared by Rea & Associates, Inc., for the audit period July 1, 2001 through June 30, 2002. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Ohio Administrative Code Section 117-2-03(B) requires the School District's financial statements to be prepared in accordance with accounting principles generally accepted in the United States (GAAP). However the School District did not prepare their financial statements in accordance with GAAP. Failing to follow generally accepted accounting principles is a condition sufficient for the Ohio Department of Education to place the School District in a Fiscal Caution Status. This status requires the School District to submit a corrective action plan to the Department. The Auditor of State is referring this report to the Ohio Department of Education.

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

A handwritten signature in black ink, appearing to read "Jim Petro".

JIM PETRO  
Auditor of State

October 16, 2002

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**NORTHWESTERN LOCAL SCHOOL DISTRICT  
WAYNE COUNTY**

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# Rea & Associates, Inc.

ACCOUNTANTS AND BUSINESS CONSULTANTS

August 9, 2002

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

## INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of Northwestern Local School District as of and for the year ended June 30, 2002, as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards and the standards generally accepted in the United States of America applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances and reserves for encumbrances of the District as of June 30, 2002, and its combined cash receipts and disbursements for the year then ended on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued a report dated August 9, 2002, on our consideration of Northwestern Local School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Governmental Audit Standards* and should be read in conjunction with this report in considering the results of our audit.

*Rea & Associates, Inc.*

NORTHWESTERN LOCAL SCHOOL DISTRICT

**COMBINED STATEMENT OF CASH RECEIPTS, DISBURSEMENTS  
AND CHANGES IN FUND CASH BALANCES  
ALL GOVERNMENTAL AND SIMILAR FIDUCIARY FUND TYPES  
FOR THE YEAR ENDED JUNE 30, 2002**

	Governmental Fund Types			Capital Projects	Fiduciary Fund Type	Total (Memorandum Only)
	General	Special Revenue	Debt Service		Expendable Trust	
<b>CASH RECEIPTS</b>						
Taxes	\$ 3,125,944	\$ 22,620	\$ 575,963	\$ 189,572	\$ 0	\$ 3,914,099
Intergovernmental	5,798,728	401,963	68,633	4,964,459	0	11,233,783
Investment Income	31,156	3,219	0	179,419	3,414	217,208
Tuition and Fees	205,923	0	0	0	0	205,923
Extracurricular Activities	0	260,545	0	0	0	260,545
Gifts and Donations	0	0	0	0	123,408	123,408
Miscellaneous	88,981	47,159	0	1,389	3,957	141,486
<b>Total Cash Receipts</b>	<b>9,250,732</b>	<b>735,506</b>	<b>644,596</b>	<b>5,334,839</b>	<b>130,779</b>	<b>16,096,452</b>
<b>CASH DISBURSEMENTS:</b>						
Instruction:						
Regular	4,476,565	136,700	0	56,403	0	4,669,668
Special	606,356	226,037	0	0	0	832,393
Vocational	587,523	0	0	0	0	587,523
Other	284,960	0	0	0	0	284,960
Support Services:						
Pupils	328,103	150,060	0	0	0	478,163
Instructional Staff	400,786	65,942	0	8,000	4,467	479,195
Board of Education	75,415	0	0	0	0	75,415
Administration	752,999	39,243	0	0	0	792,242
Fiscal	243,943	493	11,734	3,850	0	260,020
Operation and Maintenance of Plant	794,160	1,415	0	0	0	795,575
Pupil Transportation	655,730	0	0	0	0	655,730
Central	49,344	7,914	0	0	0	57,258
Operation of Non-Instructional Services	1,200	0	0	0	9,996	11,196
Extracurricular Activities	229,875	148,465	0	0	0	378,340
Capital Outlay	0	0	0	684,399	0	684,399
Debt Service:						
Principal Retirement	0	0	3,833,000	0	0	3,833,000
Interest and Fiscal Charges	0	0	560,789	0	0	560,789
<b>Total Cash Disbursements</b>	<b>9,486,959</b>	<b>776,269</b>	<b>4,405,523</b>	<b>752,652</b>	<b>14,463</b>	<b>15,435,866</b>
<b>Total Cash Receipts Over/(Under) Cash Disbursements</b>	<b>(236,227)</b>	<b>(40,763)</b>	<b>(3,760,927)</b>	<b>4,582,187</b>	<b>116,316</b>	<b>660,586</b>
<b>Other Financing Sources (Uses)</b>						
Proceeds of Bonds	0	0	3,633,000	0	0	3,633,000
Other Income	0	0	12,393	0	0	12,393
Operating Transfers In	0	0	97,673	0	0	97,673
Operating Transfers Out	(97,673)	0	0	0	0	(97,673)
<b>Total Other Financing Sources (Uses)</b>	<b>(97,673)</b>	<b>0</b>	<b>3,743,066</b>	<b>0</b>	<b>0</b>	<b>3,645,393</b>
Excess of Cash Receipts and Other Financing Sources Over/(Under) Cash Disbursements and Other Financing Uses	(333,900)	(40,763)	(17,861)	4,582,187	116,316	4,305,979
Fund Cash Balances, July 1, 2001	1,063,341	207,314	559,417	3,944,840	18,970	5,793,882
<b>Fund Cash Balances, June 30, 2002</b>	<b>\$ 729,441</b>	<b>\$ 166,551</b>	<b>\$ 541,556</b>	<b>\$ 8,527,027</b>	<b>\$ 135,286</b>	<b>\$ 10,099,861</b>
Reserves for Encumbrances	\$ 104,852	\$ 28,013	\$ 0	\$ 1,621,529	\$ 294	\$ 1,754,688

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

**NORTHWESTERN LOCAL SCHOOL DISTRICT**  
**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS**  
**AND CHANGES IN FUND CASH BALANCES**  
**ALL PROPRIETARY AND SIMILAR FIDUCIARY FUND TYPES**  
**FOR THE YEAR ENDED JUNE 30, 2002**

	<b>Proprietary Fund Types</b>		<b>Fiduciary Fund Types</b>		<b>Total (Memorandum Only)</b>
	<b>Enterprise</b>	<b>Internal Service</b>	<b>Non Expendable Trusts</b>	<b>Agency</b>	
<b>OPERATING CASH RECEIPTS</b>					
Sales	\$ 281,559	\$ 0	\$ 0	\$ 66,659	\$ 348,218
Charges for Services	0	91,838	0	4,504,216	4,596,054
Total Operating Cash Receipts	281,559	91,838	0	4,570,875	4,944,272
<b>OPERATING CASH DISBURSEMENTS</b>					
Salaries	147,465	0	0	5,500	152,965
Fringe Benefits	79,611	0	0	3,614,096	3,693,707
Purchased Services	11,793	94,297	0	564,040	670,130
Materials and Supplies	180,565	0	0	0	180,565
Capital Outlay	1,717	0	0	0	1,717
Other Operating Expenses	52	0	509	67,663	68,224
Total Operating Cash Disbursements	421,203	94,297	509	4,251,299	4,767,308
Operating Income (Loss)	(139,644)	(2,459)	(509)	319,576	176,964
<b>NON OPERATING CASH RECEIPTS/(DISBURSEMENTS)</b>					
Operating Grants	156,562	0	0	0	156,562
Interest	751	843	0	15,166	16,760
Total Non Operating Cash Receipts/(Disbursements)	157,313	843	0	15,166	173,322
Excess Cash Receipts Over/(Under) Cash Disbursements	17,669	(1,616)	(509)	334,742	350,286
Fund Cash Balances, July 1, 2001	81,251	38,051	8,559	458,711	586,572
<b>Fund Cash Balances, June 30, 2002</b>	<b>\$ 98,920</b>	<b>\$ 36,435</b>	<b>\$ 8,050</b>	<b>\$ 793,453</b>	<b>\$ 936,858</b>
Reserves for encumbrances	\$ 4,184	\$ 0	\$ 0	\$ 4,240	\$ 8,424

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



**NORTHWESTERN LOCAL SCHOOL DISTRICT  
WAYNE COUNTY**

NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2002

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Description of the Entity**

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

Average daily membership on, or as of, October 1, 2001, was 1,446. The District employs 109 certificated and 69 non-certificated employees.

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

**B. Basis of Accounting**

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

Failing to follow generally accepted accounting principles is a condition sufficient for the Ohio Department of Education to place the District in a Fiscal Caution Status. This status requires the District to submit a corrective action plan to the Department.

**C. Cash and Investments**

State Treasury Asset Reserve of Ohio (STAROhio) and cash deposits are reported at cost.

**D. Fund Accounting**

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

**NORTHWESTERN LOCAL SCHOOL DISTRICT  
WAYNE COUNTY**

NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2002

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**Governmental Funds**

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

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

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

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

**Proprietary Funds**

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

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

**Fiduciary Funds (Trust and Agency Funds)**

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

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

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

**NORTHWESTERN LOCAL SCHOOL DISTRICT  
WAYNE COUNTY**

NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2002

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**E. Budgetary Process**

**1. Budget**

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

**2. Estimated Resources**

The County Budget Commission determines if the budget substantiates a need to levy all or part of previously authorized taxes and reviews estimated revenue. The Commission certifies its actions to the District by March 1. As part of the certification, the District receives the official certificate of estimated resources, which states that projected revenue of each fund. Prior to June 30, the District must revise its budget so that the total contemplated expenditures from any fund during the ensuing fiscal year will not exceed the amount available as stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriation measure. On or about July 1, the certificate of estimated resources is amended to include any unencumbered balances from the preceding year. The certificate may be further amended during the year if a new source of revenue is identified or actual receipts exceed current estimates. Budgeted receipts in Note 3 do not include July 1, 2001 unencumbered fund balances. However, those fund balances are available for appropriations.

**3. Appropriations**

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

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

**NORTHWESTERN LOCAL SCHOOL DISTRICT  
WAYNE COUNTY**

NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2002

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**4. Encumbrances**

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

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

**5. Compliance and Accountability**

Total appropriations of the special revenue funds exceeded final estimated resources.

**F. Property, Plant, and Equipment**

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

**G. Unpaid Vacation and Sick Leave**

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

**H. Total Columns on Financial Statements**

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

**2. POOLED CASH AND INVESTMENTS**

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

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

**NORTHWESTERN LOCAL SCHOOL DISTRICT  
WAYNE COUNTY**

NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2002

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

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

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

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

**NORTHWESTERN LOCAL SCHOOL DISTRICT  
WAYNE COUNTY**

NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2002

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

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

**Deposits** - At year-end, the carrying amount of the District's deposits was \$98,826 and the bank balance was \$119,047, of which \$100,000 was covered by federal depository insurance, or collateralized by the financial institution's public entity deposit pool.

**Investments**

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

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

	Category 3	Carrying Value	Market Value
U.S. Bank			
U.S. Debt Securities	\$ 3,738,845	\$ 3,738,845	\$ 3,772,849
Investment in State Treasurer's			
Investment Pool		7,199,048	7,199,048
		\$ 10,937,893	\$ 10,971,897

**NORTHWESTERN LOCAL SCHOOL DISTRICT  
WAYNE COUNTY**

NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2002

**Restricted Cash** – Included in the June 30, 2002, General Fund cash balance is restricted cash and cash equivalents of \$172,311 set aside for the Budget Stabilization Reserve. Although no longer required by state statute, the Budget Stabilization Reserve may still be set aside at the discretion of the School District.

**3. BUDGETARY ACTIVITY**

Budgetary activity for the year ended June 30, 2002 as follows:

**2002 Budgeted vs. Actual Receipts**

	Budgeted Receipts	Actual Receipts	Variance
General	\$ 10,311,710	\$ 9,250,732	\$ (1,060,978)
Special Revenue	963,502	735,506	(227,996)
Debt Service	4,947,078	4,387,662	(559,416)
Capital Projects	9,209,056	5,334,839	(3,874,217)
Enterprise	519,642	438,872	(80,770)
Internal Service	130,617	92,681	(37,936)
Fiduciary	<u>5,201,563</u>	<u>4,716,820</u>	<u>(484,743)</u>
Total	<u>\$ 31,283,168</u>	<u>\$ 24,957,112</u>	<u>\$ (6,326,056)</u>

**2002 Budgeted vs. Actual Expenditures**

	Appropriation Authority	Budgetary Expenditures	Variance
General	\$ 10,117,248	\$ 9,689,484	\$ (427,764)
Special Revenue	749,072	804,282	55,210
Debt Service	4,402,789	4,405,523	2,734
Capital Projects	1,305,626	2,374,181	1,068,555
Enterprise	432,115	425,387	(6,728)
Internal Service	81,000	94,297	13,297
Fiduciary	<u>3,829,990</u>	<u>4,270,805</u>	<u>440,815</u>
Total	<u>\$ 20,917,840</u>	<u>\$ 22,063,959</u>	<u>\$ 1,146,119</u>

**NORTHWESTERN LOCAL SCHOOL DISTRICT  
WAYNE COUNTY**

NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2002

**4. GENERAL LONG TERM OBLIGATIONS**

	Outstanding June 30, 2001	Additions	Deductions	Outstanding June 30, 2002
General Obligation Bonds				
4.5% to 7.2%	\$ 4,905,000	\$ 0	\$ 120,000	\$ 4,785,000
5.14%	155,000	0	50,000	105,000
Notes payable HB 264 - 5.6%	170,000	0	30,000	140,000
Bond Anticipation Note Payable				
3.95 % Due October 23, 2001	3,633,000	0	3,633,000	0
Various Improvement Bonds				
3.00% Due July 1, 2023	0	3,633,000	0	3,633,000
	\$ 8,863,000	\$ 3,633,000	\$ 3,833,000	\$ 8,663,000

Outstanding general obligation bonds consist of school building construction issues and school bus issues. General obligation bonds are direct obligations of the District for which its full faith, credit and resources are pledged and are payable from taxes levied on all taxable property in the District. The annual requirement to amortize all debt outstanding as of June 30, 2002, including interest payments of \$5,406,096 is as follows:

	June 30,
2003	\$ 742,038
2004	770,544
2005	724,800
2006	779,588
2007	751,611
Thereafter	10,300,515
	\$ 14,069,096

**5. PROPERTY TAXES**

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

Real property taxes are based on assessed value equal to thirty-five percent of appraisal value. The Wayne and Ashland County Auditors reappraise real property every six years with a triennial update, which last update was completed for 1999. Real property tax, which becomes a lien on the applicable real property, becomes due annually on December 31. However, in Wayne and Ashland Counties, real property taxes are billed semi-annually, one year in arrears. The tax rate



**NORTHWESTERN LOCAL SCHOOL DISTRICT  
WAYNE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2002**

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applied to real property collected in 2001 before certain homestead and rollback reductions, which reductions are reimbursed to the District by the State of Ohio, for both Wayne and Ashland Counties amounted to \$34.90 per \$1,000 of valuation. The effective rate applied after adjustment for inflationary increases in property values for both counties was \$30.50 per \$1,000 of assessed valuation for residential and agricultural real property, and \$31.44 per \$1,000 of assessed valuation for other real property.

Tangible personal property used in business is required to be reported by its owners by April 30 of each year. The property is assessed for tax purposes at varying statutory percentages of cost. The tax rate applied to tangible personal property for the current year ended December 31, 2001 was \$34.90 per \$1,000 of valuation for both Wayne and Ashland Counties.

**6. DEFINED BENEFIT PENSION PLANS**

**A. SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS)**

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

Plan members are required to contribute 9% of their annual covered salary and Northwestern Local School District is required to contribute at an actuarially determined rate. The current rate is 14% of annual covered payroll. The contribution requirement of plan members and Northwestern Local School District are established and may be amended by the SERS Board of Trustees. The School District's contributions to SERS for the fiscal years ended June 30, 2002, 2001 and 2000 were \$237,219, \$202,182, and, \$185,076, respectively; 100 percent has been contributed for the fiscal years 2002, 2001 and 2000.

**B. STATE TEACHERS RETIREMENT SYSTEM (STRS)**

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

**NORTHWESTERN LOCAL SCHOOL DISTRICT  
WAYNE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2002**

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Plan members are required to contribute 9.3% of their annual covered salary and Northwestern Local School District is required to contribute an actuarially determined rate. The current rate is 14% of annual covered payroll. The contribution requirement of plan members and Northwestern Local School District are established and may be amended by the STRS Board of Trustees. The School District's contributions to STRS for the fiscal years ended June 30, 2002, 2001, and 2000 were \$743,521, \$653,472, and \$615,000, respectively; 100 percent has been contributed for the fiscal years 2002, 2001 and 2000.

**7. POSTEMPLOYMENT BENEFITS**

**A. SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS)**

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

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

After the allocation for basic benefits, the remainder of the employer's contribution is allocated to providing health care benefits. At June 30, 2001, (the latest information available) the allocation rate was 9.80%. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between minimum pay and the member's pay, pro-rated for partial service credit. For fiscal 2001 (the latest information available), the minimum pay has been established as \$12,400.

Health care benefits are financed on a pay-as-you-go basis.

The target level for the health care reserve is 150% of annual health care expenses. Expenses for health care at June 30, 2001 were \$161,439,934 and the target level was \$242.2 million. At June 30, 2001, the Retirement System's net assets available for payment of health care benefits was \$315.7 million, at cost. The number of participants currently receiving health care benefits is approximately 50,000. The portion employer contributions that were used to fund postemployment benefits was \$169,826.

**NORTHWESTERN LOCAL SCHOOL DISTRICT  
WAYNE COUNTY**

NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2002

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**B. STATE TEACHERS RETIREMENT SYSTEM (STRS)**

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

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

The Board currently allocates employer contributions equal to 4.5% of covered payroll to the Health Care Reserve Fund from which payments for health care benefits are paid. However, for the fiscal year ended June 30, 2000, the board allocated employer contributions equal to 8% of covered payroll to the Health Care Reserve Board. The balance in the Health Care Reserve Fund was \$3,256 million at June 30, 2001 (the latest information available). For the year ended June 30, 2001, the net health care costs paid by STRS were \$300,772,000. There were 102,132 eligible benefit recipients.

**8. JOINTLY GOVERNED ORGANIZATIONS**

**A. TRI-COUNTY COMPUTER SERVICES ASSOCIATION (TCCSA)**

The Tri-County Computer Services Association (TCCSA) is a jointly governed organization comprised of 21 school districts. The jointly governed organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions for member districts. Each of the governments of these districts supports TCCSA based on per pupil charge dependent upon the software package utilized. The TCCSA assembly consists of a superintendent or designated representative from each participating district and a representative from the fiscal agent. TCCSA is governed by a board of directors chosen from the general membership of the TCCSA assembly. The board of directors consists of a representative from the fiscal agent, the chairman of each operating committee, and at least an assembly member from each county from which participating districts are located. Financial information can be obtained by contacting the Treasurer at the Ashland-Wayne County Education Services Center, which serves as fiscal agent, located at 2534 Burbank Road, Wooster, Ohio, 44691. During the year ended June 30, 2002 the District paid approximately \$49,452 to TCCSA for basic service charges.

**NORTHWESTERN LOCAL SCHOOL DISTRICT  
WAYNE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2002**

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**9. STATE SCHOOL FUNDING DECISION**

On September 6, 2001, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision identified aspects of the current plan that require modification if the plan is to be considered constitutional, including:

- A change in the school districts that are used as the basis for determining the base cost support amount. Any change in the amount of funds distributed to school districts as a result of this change must be retroactive to July 1, 2001, although a time line for distribution is not specified.
- Fully funding parity aid no later than the beginning of fiscal year 2004 rather than fiscal year 2006.

The Supreme Court relinquished jurisdiction over the case based on anticipated compliance with this order.

In general, it is expected that the decision would result in an increase in State funding for most Ohio school districts. However, as of October 23, 2001, the Ohio General Assembly is still analyzing the impact this Supreme Court decision will have on funding for individual school districts. Further, the State of Ohio, in a motion filed September 17, 2001, asked the Court to reconsider and clarify the parts of the decision changing the school districts that are used as the basis for determining the base cost support amount and the requirement that changes be made retroactive to July 1, 2001.

On November 2, 2001, the Court granted this motion for reconsideration. The Court may re-examine and re-determine any issue upon such reconsideration.

As of the date of these financial statements, the District is unable to determine what effect, if any, this decision will have on its future State funding and on its financial operations.

**10. CHANGE IN BASIS OF ACCOUNTING**

The District previously reported under generally accepted accounting principles. Effective July 1, 2001, the District is reporting under the method described in Note 1. Beginning balances were restated on the basis of accounting in Note 1, all revenue and expense adjustments do to the accrual basis of accounting were adjusted.

# Rea & Associates, Inc.

ACCOUNTANTS AND BUSINESS CONSULTANTS

August 9, 2002

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

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

We have audited the financial statements of Northwestern Local School District as of and for the year ended June 30, 2002, and have issued our report thereon dated August 9, 2002. We have conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### **Compliance**

As part of obtaining reasonable assurance about whether Northwestern Local School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under *Government Auditing Standards* which is described in the accompanying Schedule of Findings as item 2002-001. However, we noted certain immaterial instances of noncompliance that we have reported to management of Northwestern Local School District in a separate letter dated August 9, 2002.

### **Internal Control Over Financial Reporting**

In planning and performing our audit, we considered Northwestern Local School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design of operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of Northwestern Local School District in a separate letter dated August 9, 2002.

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

*Rea & Associates, Inc.*

# Rea & Associates, Inc.

ACCOUNTANTS AND BUSINESS CONSULTANTS

August 9, 2002

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

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

### **Compliance**

We have audited the compliance of Northwestern Local School District with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2002. Northwestern Local School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Northwestern Local School District's management. Our responsibility is to express an opinion on Northwestern Local School District's compliance based on our audit.

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

In our opinion, Northwestern Local School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2002.

**Internal Control Over Compliance**

The management of Northwestern Local School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Northwestern Local School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

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

**Schedule of Expenditures of Federal Awards - Non GAAP Budgetary Basis**

We have audited the financial statements of Northwestern Local School District as of and for the year ended June 30, 2002, and have issued our report thereon dated August 9, 2002. Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements of Northwestern Local School District. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

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

*Hea & Associates, Inc.*

**NORTHWESTERN LOCAL SCHOOL DISTRICT  
SCHEDULE OF EXPENDITURE OF FEDERAL AWARDS - NON-GAAP BUDGETARY BASIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

<b>Federal Grantor/ Pass Through Grantor/ Program Title</b>	<b>CFDA Number</b>	<b>Grant Number</b>	<b>Federal Receipts</b>	<b>Federal Disbursements</b>	<b>Non-Cash Transactions</b>
<b>U. S. Department of Education</b> (Passed Through Ohio Department of Education):					
Title I	84.010	C1-S1-01	\$ 140,080	\$ 140,080	\$ 0
Total Title I			140,080	140,080	0
Title VI-B	84.027	6B-SF-02P	112,091	112,091	0
Title VI-B	84.027	6B-ST-02P	25,000	25,000	0
Title VI-B	84.027	6B-SF-01P	0	9,102	0
Total Title VI-B			137,091	146,193	0
Drug Free Schools	84.186	DR-S1-02	5,623	5,265	0
Drug Free Schools	84.186	DR-S1-01	0	5,162	0
Total Drug Free Schools			5,623	10,427	0
Eisenhower Grant	84.281	MS-S1-02	7,014	6,489	0
Eisenhower Grant	84.281	MS-S1-01	0	2,076	0
Total Eisenhower Grant			7,014	8,565	0
Title VI	84.298	C2-S1-02	7,409	7,409	0
Total Title VI			7,409	7,409	0
Title VI-R	84.340	CR-S1-02	32,790	32,790	0
Total Title VI-R			32,790	32,790	0
<b>Total Department of Education</b>			<b>330,007</b>	<b>345,464</b>	<b>0</b>
<b>U. S. Department of Health &amp; Human Services</b> (Passed Through State Department of MRDD):					
Medical Assistance Program/CAFS	93.778		4,732	4,732	0
<b>U. S. Department of Agriculture</b> (Passed Through Ohio Department of Education):					
<i>Nutrition Cluster</i>					
Food Distribution (A) (B)	10.550		61,492	0	54,613
School Breakfast Program (A)	10.553		9,551	9,551	0
National School Lunch Program (A)	10.555		140,533	140,533	0
<b>Total Department of Agriculture - Nutrition Cluster</b>			<b>211,576</b>	<b>150,084</b>	<b>54,613</b>
<b>TOTAL FEDERAL FINANCIAL ASSISTANCE</b>			<b>\$ 546,315</b>	<b>\$ 500,280</b>	<b>\$ 54,613</b>

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



**NORTHWESTERN LOCAL SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
OMB CIRCULAR A-133 , Section .505  
JUNE 30, 2002**

**1. SUMMARY OF AUDITOR'S RESULTS**

(d) (1) (i)	Type of Financial Statement Opinion	Unqualified
(d) (1) (ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d) (1) (iii)	Was there any reported material non- compliance at the financial statement level (GAGAS)?	Yes
(d) (1) (iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d) (1) (iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
(d) (1) (v)	Type of Major Programs' Compliance Opinion	Unqualified
(d) (1) (vi)	Are there any reportable findings under Section .510?	No
(d) (1) (vii)	Major Programs (list):	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?	Yes

**NORTHWESTERN LOCAL SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
OMB CIRCULAR A-133 , Section .505  
JUNE 30, 2002  
Page 2**

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

**NONCOMPLIANCE**

Finding Number	2002-001
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Gaap Reporting

Ohio Admin. Code Section 117-2-03 requires the District to prepare its annual financial report in accordance with generally accepted accounting principles. For the fiscal year 2002, the District prepared its financial statements on the basis of accounting formerly prescribed and permitted by the Auditor of State, which is a basis of accounting other than accounting principles generally accepted in the United States of America. The accompanying financial statements omit assets, liabilities, fund equities, and disclosures that, while material, cannot be determined at this time. The District can be fined and various other administrative remedies may be taken against the District.

**3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS**

None were noted



STATE OF OHIO  
OFFICE OF THE AUDITOR  

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JIM PETRO, AUDITOR OF STATE

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800-282-0370  
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**NORTHWESTERN LOCAL SCHOOL DISTRICT**

**WAYNE COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
NOVEMBER 7, 2002**