

**NORTHWEST LOCAL SCHOOL DISTRICT  
STARK COUNTY**

**SINGLE AUDIT**

**FOR THE YEAR ENDED JUNE 30, 2007**



**Mary Taylor, CPA**  
Auditor of State



**NORTHWEST LOCAL SCHOOL DISTRICT  
STARK COUNTY**

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# Mary Taylor, CPA

Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT

Northwest Local School District  
Stark County  
8614 Erie Ave. NW  
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, 2007, 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 the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure 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 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, 2007, and the respective changes in financial position thereof and the budgetary comparison for the General fund 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 February 15, 2008, 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 grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information accounting principles generally accepted in the United States of America requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

We conducted our audit to opine on the financial statements that collectively comprise the District's basic financial statements. The Federal Awards Receipts and Expenditures Schedule is required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements. We subjected the Federal Awards Receipts and Expenditures Schedule to the auditing procedures applied in the audit of the basic financial statements. In our opinion, this information 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 "Mary Taylor". The signature is written in a cursive, flowing style.

**Mary Taylor, CPA**  
Auditor of State

February 15, 2008

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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007  
(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, 2007. 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 2007 are as follows:

- In total, net assets of governmental activities decreased \$1,239,065 which represents a 47.15% decrease from 2006.
- General revenues accounted for \$18,171,741 in revenue or 84.72% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$3,276,570 or 15.28% of total revenues of \$21,448,311.
- The District had \$22,687,376 in expenses related to governmental activities; only \$3,276,570 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 \$18,171,741 were not adequate to provide for these programs.
- The District has two major governmental funds. They are the general fund and debt service fund. The general fund had \$17,365,401 in revenues and other financing sources and \$19,187,550 in expenditures. During fiscal 2007, the general fund's fund balance decreased \$1,826,564 from a deficit balance of \$569,635 to a deficit balance of \$2,396,199.
- The debt service fund had \$1,760,839 in revenues and \$1,554,765 in expenditures. During fiscal 2007, the debt service fund's fund balance increased \$206,074 from \$658,809 to \$864,883.

**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 and debt service 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, 2007  
(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 2007?" 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 and debt service fund; all other governmental funds are considered non-major.

***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* that 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, 2007  
(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. Net assets at June 30, 2006 have been restated, as described in Note 3.A. of the notes to the basic financial statements.

The table below provides a summary of the District's net assets for 2007 and 2006.

|  | Net Assets                                |   |
|--|---|---|
|  | Governmental<br>Activities<br><u>2007</u> | Restated<br>Governmental<br>Activities<br><u>2006</u> |
| <b><u>Assets</u></b>                               |   |   |
| Current and other assets                           | \$ 9,795,075                              | \$ 13,328,522   |
| Capital assets, net                                | <u>25,841,431</u>                         | <u>24,505,721</u>                                     |
| Total assets                                       | <u>35,636,506</u>                         | <u>37,834,243</u>                                     |
| <b><u>Liabilities</u></b>                          |   |   |
| Current liabilities                                | 10,603,361                                | 11,252,805  |
| Long-term liabilities                              | <u>23,644,075</u>                         | <u>23,953,303</u>                                     |
| Total liabilities                                  | <u>34,247,436</u>                         | <u>35,206,108</u>                                     |
| <b><u>Net Assets</u></b>                           |   |   |
| Invested in capital<br>assets, net of related debt | 4,687,362                                 | 3,585,484   |
| Restricted   | 1,163,955                                 | 1,248,741   |
| Unrestricted (deficit)                             | <u>(4,462,247)</u>                        | <u>(2,206,090)</u>                                    |
| Total net assets                                   | <u>\$ 1,389,070</u>                       | <u>\$ 2,628,135</u>                                   |

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2007, the District's assets exceeded liabilities by \$1,389,070. Of this total, \$1,163,955 is restricted in use leaving the District with an unrestricted net assets deficit of \$4,462,247.

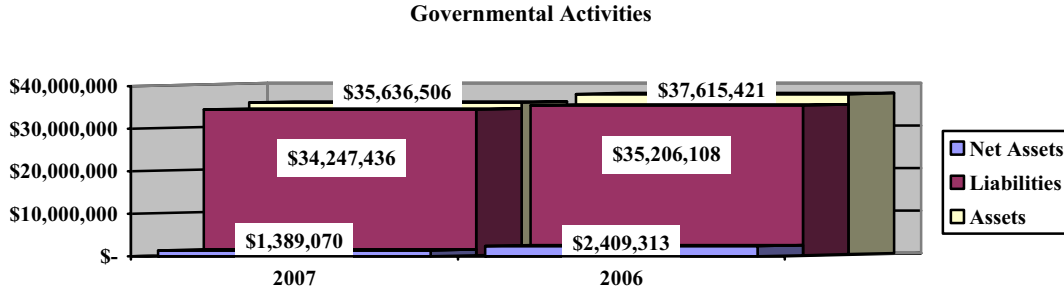
At year-end, capital assets represented 72.51% of total assets. Capital assets include land, buildings and improvements, furniture and equipment and vehicles. Capital assets, net of related debt to acquire the assets at June 30, 2007, were \$4,687,362. These capital assets are used to provide services 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, \$1,163,955 represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets is a deficit of \$4,462,247.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007  
(UNAUDITED)

The graph below presents the District's assets, liabilities and net assets for fiscal years 2007 and 2006.



The table below shows the change in net assets for fiscal years 2007 and 2006.

**Change in Net Assets**

|                                    | Governmental<br>Activities<br>2007 | Governmental<br>Activities<br>2006 |
|------------------------------------|------------------------------------|------------------------------------|
| <b><u>Revenues</u></b>             |                                    |                                    |
| Program revenues:                  |                                    |                                    |
| Charges for services and sales     | \$ 1,228,893                       | \$ 1,198,074                       |
| Operating grants and contributions | 1,941,458                          | 1,043,295                          |
| Capital grants and contributions   | 106,219                            | -                                  |
| General revenues:                  |                                    |                                    |
| Property taxes                     | 8,319,366                          | 7,997,373                          |
| Grants and entitlements            | 9,623,779                          | 9,853,285                          |
| Investment earnings                | 92,481                             | 335,625                            |
| Miscellaneous                      | 136,115                            | 211,372                            |
| Total revenues                     | <u>21,448,311</u>                  | <u>20,639,024</u>                  |

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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007  
(UNAUDITED)

**Change in Net Assets**

|  | Governmental<br>Activities<br><u>2007</u> | Governmental<br>Activities<br><u>2006</u> |
|--|---|---|
| <b><u>Expenses</u></b>                     |   |   |
| Program expenses:                          |   |   |
| Instruction:                               |   |   |
| Regular                                    | \$ 9,949,319                              | \$ 10,293,366                             |
| Special                                    | 2,612,140                                 | 2,439,914                                 |
| Vocational                                 | 279,902                                   | 289,030                                   |
| Other                                      | 137,759                                   | 131,756                                   |
| Support services:                          |   |   |
| Pupil                                      | 1,214,087                                 | 912,063                                   |
| Instructional staff                        | 272,407                                   | 261,494                                   |
| Board of education                         | 67,592                                    | 60,685                                    |
| Administration                             | 1,812,602                                 | 1,740,980                                 |
| Fiscal                                     | 409,596                                   | 358,727                                   |
| Operations and maintenance                 | 1,956,476                                 | 2,123,477                                 |
| Pupil transportation                       | 1,155,445                                 | 1,168,194                                 |
| Central                                    | 463,698                                   | 443,848                                   |
| Operations of non-instructional services   | 47,126                                    | 150,160                                   |
| Extracurricular activities                 | 541,600                                   | 447,613                                   |
| Intergovernmental pass-through             | 75,368                                    | 5,379                                     |
| Food service operations                    | 646,456                                   | 700,767                                   |
| Interest and fiscal charges                | <u>1,045,803</u>                          | <u>1,073,668</u>                          |
| Total expenses                             | <u>22,687,376</u>                         | <u>22,601,121</u>                         |
| Change in net assets                       | (1,239,065)                               | (1,962,097)                               |
| Net assets at beginning of year (restated) | <u>2,628,135</u>                          | <u>4,590,232</u>                          |
| Net assets at end of year                  | <u>\$ 1,389,070</u>                       | <u>\$ 2,628,135</u>                       |

**Governmental Activities**

Net assets of the District's governmental activities decreased \$1,239,065. Total governmental expenses of \$22,687,376 were offset by program revenues of \$3,276,570 and general revenues of \$18,171,741. Program revenues supported 14.44% 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 83.66% of total governmental revenue.

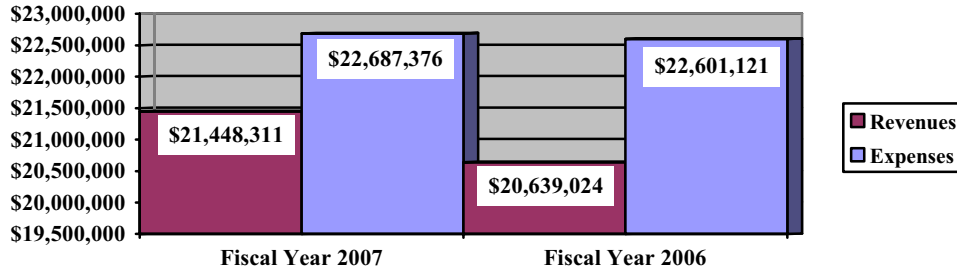
The largest expense of the District is for instructional programs. Instruction expenses totaled \$12,979,120 or 57.21% of total governmental expenses for fiscal year 2007.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007  
(UNAUDITED)

The graph below presents the District's governmental activities revenue and expenses for fiscal years 2007 and 2006.

**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<br>Services<br>2007 | Net Cost of<br>Services<br>2007 | Total Cost of<br>Services<br>2006 | Net Cost of<br>Services<br>2006 |
|--|-----------------------------------|---------------------------------|-----------------------------------|---------------------------------|
| <b>Program expenses</b>                  |                                   |                                 |                                   |                                 |
| Instruction:                             |                                   |                                 |                                   |                                 |
| Regular                                  | \$ 9,949,319                      | \$ 9,260,541                    | \$ 10,293,366                     | \$ 9,744,600                    |
| Special                                  | 2,612,140                         | 1,570,136                       | 2,439,914                         | 2,041,393                       |
| Vocational                               | 279,902                           | 222,744                         | 289,030                           | 289,030                         |
| Other                                    | 137,759                           | 137,759                         | 131,756                           | 131,756                         |
| Support services:                        |                                   |                                 |                                   |                                 |
| Pupil                                    | 1,214,087                         | 1,008,487                       | 912,063                           | 675,983                         |
| Instructional staff                      | 272,407                           | 265,338                         | 261,494                           | 257,123                         |
| Board of education                       | 67,592                            | 67,592                          | 60,685                            | 60,685                          |
| Administration                           | 1,812,602                         | 1,804,348                       | 1,740,980                         | 1,732,966                       |
| Fiscal                                   | 409,596                           | 409,596                         | 358,727                           | 358,727                         |
| Operations and maintenance               | 1,956,476                         | 1,940,496                       | 2,123,477                         | 2,112,007                       |
| Pupil transportation                     | 1,155,445                         | 1,078,383                       | 1,168,194                         | 1,168,047                       |
| Central                                  | 463,698                           | 320,983                         | 443,848                           | 284,188                         |
| Operations of non-instructional services | 47,126                            | 22,574                          | 150,160                           | 17,683                          |
| Extracurricular activities               | 541,600                           | 319,479                         | 447,613                           | 309,958                         |
| Intergovernmental pass-through           | 75,368                            | (25,169)                        | 5,379                             | 5,379                           |
| Food service operations                  | 646,456                           | (38,284)                        | 700,767                           | 96,559                          |
| Interest and fiscal charges              | 1,045,803                         | 1,045,803                       | 1,073,668                         | 1,073,668                       |
| <b>Total</b>                             | <u>\$ 22,687,376</u>              | <u>\$ 19,410,806</u>            | <u>\$ 22,601,121</u>              | <u>\$ 20,359,752</u>            |

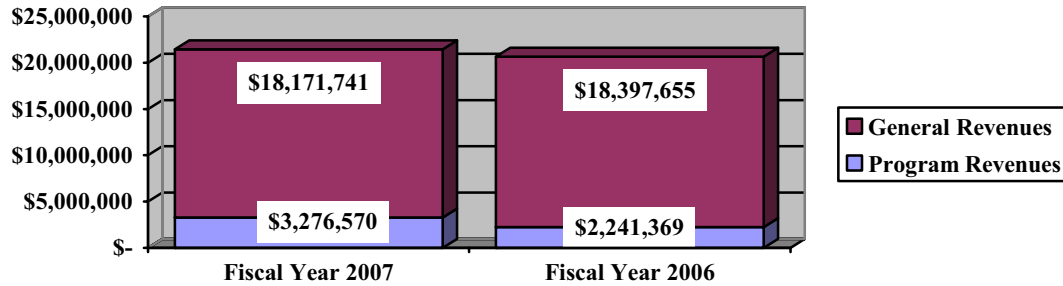
**NORTHWEST LOCAL SCHOOL DISTRICT  
STARK COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007  
(UNAUDITED)

The dependence upon tax and other general revenues for governmental activities is apparent, 86.22% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 85.56%. 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 2007 and 2006.

**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 deficit of \$1,564,915, which is below last year combined fund balance of \$1,684,179. Fund balances at June 30, 2006 have been restated. See Note 3 A. for detail. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2007 and 2006.

|                    | Fund Balance<br>(Deficit)<br><u>June 30, 2007</u> | Restated<br>Fund Balance<br>(Deficit)<br><u>June 30, 2006</u> | Increase<br>(Decrease) |
|--------------------|---|---|------------------------|
| General            | \$ (2,396,199)                                    | \$ (569,635)  | \$ (1,826,564)         |
| Debt Service       | 864,883   | 658,809   | 206,074                |
| Other Governmental | <u>(33,599)</u>                                   | <u>1,595,005</u>  | <u>(1,628,604)</u>     |
| Total              | <u>\$ (1,564,915)</u>                             | <u>\$ 1,684,179</u>   | <u>\$ (3,249,094)</u>  |

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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007  
(UNAUDITED)

***General Fund***

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

|   | <u>2007</u><br><u>Amount</u> | <u>2006</u><br><u>Amount</u> | Increase<br>(Decrease) | Percentage<br>Change |
|---|------------------------------|------------------------------|------------------------|----------------------|
| <b><u>Revenues</u></b>                  |                              |                              |                        |                      |
| Taxes                                   | \$ 6,535,444                 | \$ 6,335,878                 | \$ 199,566             | 3.15 %               |
| Tuition                                 | 486,340                      | 411,351                      | 74,989                 | 18.23 %              |
| Earnings on investments                 | 47,868                       | 115,850                      | (67,982)               | (58.68) %            |
| Intergovernmental                       | 10,123,904                   | 9,646,776                    | 477,128                | 4.95 %               |
| Other revenues                          | <u>95,755</u>                | <u>207,233</u>               | <u>(111,478)</u>       | <u>(53.79) %</u>     |
| Total                                   | <u>\$ 17,289,311</u>         | <u>\$ 16,717,088</u>         | <u>\$ 572,223</u>      | 3.42 %               |
| <b><u>Expenditures</u></b>              |                              |                              |                        |                      |
| Instruction                             | \$ 12,187,499                | \$ 11,660,834                | \$ 526,665             | 4.52 %               |
| Support services                        | 6,660,881                    | 6,161,418                    | 499,463                | 8.11 %               |
| Operation of non-instructional services | 21,248                       | 22,198                       | (950)                  | (4.28) %             |
| Extracurricular activities              | <u>317,922</u>               | <u>298,721</u>               | <u>19,201</u>          | 6.43 %               |
| Total                                   | <u>\$ 19,187,550</u>         | <u>\$ 18,143,171</u>         | <u>\$ 1,044,379</u>    | 5.76 %               |

Tuition revenue increased 18.23% over the prior fiscal year. This is due to the District receiving more in open enrollment revenue. The earnings on investments in the general fund decreased 58.68%, which can be attributed to the District having less cash available to invest. Intergovernmental revenues increased 4.95%, which is primarily due to the personal property tax reimbursement received from the state. Other revenues decreased due to less money being received from local sources. Instruction and support services expenditures increased 4.52% and 8.11% respectively. This can be attributed to increasing wage and benefit costs for the District's staff. All other revenues and expenditures remained comparable with the prior fiscal year.

***Debt Service Fund***

The District's debt service fund balance increased \$206,074. The debt service fund had revenues of \$1,760,839 and expenditures of \$1,554,765. The primary revenue source was from taxes which was \$1,544,518 in fiscal year 2007. During fiscal year 2007, the debt service fund made \$630,000 in principal payments and \$901,765 in interest payments.

***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 2007, the District amended its general fund budget numerous times. For the general fund, final budgeted revenues were \$17,815,771, which was greater than the original budgeted revenues estimate of \$17,520,558. Actual revenues for fiscal 2007 were \$17,415,982. This represents a \$399,789 decrease from final budgeted revenues.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007  
(UNAUDITED)

General fund final appropriations (appropriated expenditures) were \$18,998,627, which was \$295,213 greater than original budgeted appropriations of \$18,703,414. The actual budget basis expenditures for fiscal year 2007 totaled \$18,973,314, which was \$25,313 less than the final budget appropriations.

**Capital Assets and Debt Administration**

***Capital Assets***

At the end of fiscal 2007, the District had \$25,841,431 invested in land, buildings and improvements, furniture and equipment and vehicles. This entire amount is reported in governmental activities. Capital assets at June 30, 2006 have been restated. See Note 3 A. for detail. The following table shows fiscal 2007 balances compared to 2006:

|                            | <b>Capital Assets at June 30<br/>(Net of Depreciation)</b> |                             |
|----------------------------|--|-----------------------------|
|                            | <u>Governmental Activities</u>                             |                             |
|                            | <u>2007</u>  | <u>Restated<br/>2006</u>    |
| Land                       | \$ 133,138   | \$ 133,138                  |
| Buildings and improvements | 24,434,131   | 8,262,928                   |
| Furniture and equipment    | 862,931  | 474,515                     |
| Vehicles                   | 411,231  | 556,682                     |
| Construction in progress   | -  | 15,078,458                  |
| <b>Total</b>               | <b><u>\$ 25,841,431</u></b>                                | <b><u>\$ 24,505,721</u></b> |

Total additions to capital assets for 2007 were \$2,267,451 and total disposals were \$12,467 (net of accumulated depreciation). The overall increase in capital assets of \$1,335,710 is primarily due to the completion of the new high school within the District in fiscal 2007. Depreciation expense for fiscal 2007 was \$919,274.

See Note 8 to the basic financial statements for additional information on the District's capital assets.

***Debt Administration***

At June 30, 2007, the District had \$21,863,661 in general obligation bonds. This total includes \$433,797 in unamortized premium on the bond issue. Of this total, \$596,127 is due within one year and \$21,267,534 is due in more than one year. The following table summarizes the bonds outstanding.

|   | Governmental                | Governmental                |
|---|-----------------------------|-----------------------------|
|   | Activities                  | Activities                  |
|   | <u>2007</u>                 | <u>2006</u>                 |
| General obligation bonds (includes unamortized premium) | <u>\$ 21,863,661</u>        | <u>\$ 22,360,907</u>        |
| <b>Total</b>  | <b><u>\$ 21,863,661</u></b> | <b><u>\$ 22,360,907</u></b> |

See Note 9 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, 2007  
(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's financial base for operations is being stretched due to revenues remaining stagnant while expenditures continue to increase. The District placed a Replacement Levy on the May, 2007 ballot which would have raised \$1.0 million for general operations. However, this levy was defeated. The Board of Education and administration will review the revenues and expenditures and determine what levy proposal should be put before the voters. In the interim expenditures have been decreased where possible without negatively affecting the quality of a student's education. If future levy issues do not pass cuts will be made that could negatively impact the quality of education that the District is able to provide to students.

Our community recently passed a \$23 million bond issue in May of 2002. The support of this issue enabled the District to construct two new school buildings. Northwest Elementary opened their doors for the 2005-2006 school year and a new Northwest High School began classes with the 2006-2007 school year.

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 2007. 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 Levensood, Treasurer, Northwest Local School District, 8614 Erie Avenue N., Canal Fulton, Ohio 44614.



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

STATEMENT OF NET ASSETS  
JUNE 30, 2007

|   | <b>Governmental<br/>Activities</b> |
|---|------------------------------------|
| <b>Assets:</b>  |                                    |
| Equity in pooled cash and cash equivalents. . .             | \$ 831,755                         |
| Cash with fiscal agent. . . . .                             | 13,488                             |
| Receivables:  |                                    |
| Taxes . . . . .   | 8,475,863                          |
| Accounts . . . . .  | 2,678                              |
| Intergovernmental . . . . .                                 | 174,491                            |
| Accrued interest . . . . .                                  | 811                                |
| Prepayments. . . . .  | 14,942                             |
| Materials and supplies inventory . . . . .                  | 28,088                             |
| Unamortized bond issue costs. . . . .                       | 252,959                            |
| Capital assets:   |                                    |
| Land . . . . .  | 133,138                            |
| Depreciable capital assets, net . . . . .                   | 25,708,293                         |
| Total capital assets, net . . . . .                         | 25,841,431                         |
| <br>Total assets . . . . .                                  | <br>35,636,506                     |
| <b>Liabilities:</b>   |                                    |
| Accounts payable . . . . .                                  | 120,767                            |
| Retainage payable. . . . .                                  | 13,488                             |
| Accrued wages and benefits . . . . .                        | 1,723,865                          |
| Pension obligation payable. . . . .                         | 539,742                            |
| Intergovernmental payable . . . . .                         | 339,446                            |
| Accrued interest payable . . . . .                          | 75,147                             |
| Unearned revenue. . . . .                                   | 7,790,906                          |
| Long-term liabilities:                                      |                                    |
| Due within one year. . . . .                                | 907,706                            |
| Due in more than one year . . . . .                         | 22,736,369                         |
| <br>Total liabilities . . . . .                             | <br>34,247,436                     |
| <b>Net Assets:</b>  |                                    |
| Invested in capital assets, net<br>of related debt. . . . . | 4,687,362                          |
| Restricted for:   |                                    |
| Capital projects . . . . .                                  | 56,275                             |
| Debt service. . . . .                                       | 836,444                            |
| Locally funded programs . . . . .                           | 2,144                              |
| State funded programs . . . . .                             | 49,378                             |
| Federally funded programs . . . . .                         | 68,907                             |
| Student activities . . . . .                                | 45,557                             |
| Other purposes . . . . .                                    | 105,250                            |
| Unrestricted (deficit) . . . . .                            | (4,462,247)                        |
| <br>Total net assets . . . . .                              | <br>\$ 1,389,070                   |

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, 2007

|  | Expenses             | Program Revenues                     |  |  | Net (Expense)<br>Revenue and<br>Changes in<br>Net Assets |
|--|----------------------|--------------------------------------|--|--|--|
|  |                      | Charges for<br>Services<br>and Sales | Operating<br>Grants and<br>Contributions | Capital<br>Grants and<br>Contributions | Governmental<br>Activities                               |
| <b>Governmental activities:</b>                |                      |                                      |  |  |  |
| Instruction:                                   |                      |                                      |  |  |  |
| Regular . . . . .                              | \$ 9,949,319         | \$ 495,007                           | \$ 166,635                               | \$ 27,136                              | \$ (9,260,541)   |
| Special . . . . .                              | 2,612,140            | -                                    | 1,042,004                                | -                                      | (1,570,136)  |
| Vocational . . . . .                           | 279,902              | 4,674                                | 52,484                                   | -                                      | (222,744)  |
| Other . . . . .                                | 137,759              | -                                    | -  | -                                      | (137,759)  |
| Support services:                              |                      |                                      |  |  |  |
| Pupil . . . . .                                | 1,214,087            | -                                    | 205,600                                  | -                                      | (1,008,487)  |
| Instructional staff . . . . .                  | 272,407              | -                                    | 7,069                                    | -                                      | (265,338)  |
| Board of education . . . . .                   | 67,592               | -                                    | -  | -                                      | (67,592)   |
| Administration . . . . .                       | 1,812,602            | -                                    | 8,254                                    | -                                      | (1,804,348)  |
| Fiscal . . . . .                               | 409,596              | -                                    | -  | -                                      | (409,596)  |
| Operations and maintenance . . . . .           | 1,956,476            | 15,980                               | -  | -                                      | (1,940,496)  |
| Pupil transportation . . . . .                 | 1,155,445            | -                                    | 57,966                                   | 19,096                                 | (1,078,383)  |
| Central . . . . .                              | 463,698              | 97,458                               | 45,257                                   | -                                      | (320,983)  |
| Operation of non-instructional                 |                      |                                      |  |  |  |
| services . . . . .                             | 47,126               | -                                    | 24,552                                   | -                                      | (22,574)   |
| Extracurricular activities . . . . .           | 541,600              | 155,683                              | 6,451                                    | 59,987                                 | (319,479)  |
| Intergovernmental pass-through . . . . .       | 75,368               | -                                    | 100,537                                  | -                                      | 25,169   |
| Food service operations . . . . .              | 646,456              | 460,091                              | 224,649                                  | -                                      | 38,284   |
| Interest and fiscal charges . . . . .          | 1,045,803            | -                                    | -  | -                                      | (1,045,803)  |
| <b>Total governmental activities . . . . .</b> | <b>\$ 22,687,376</b> | <b>\$ 1,228,893</b>                  | <b>\$ 1,941,458</b>                      | <b>\$ 106,219</b>                      | <b>(19,410,806)</b>                                      |

**General Revenues:**

Property taxes levied for:

|  |                     |
|--|---------------------|
| General purposes . . . . .   | 6,590,721           |
| Debt service . . . . .   | 1,557,687           |
| Capital projects . . . . .   | 170,958             |
| Grants and entitlements not restricted<br>to specific programs . . . . . | 9,623,779           |
| Investment earnings . . . . .  | 92,481              |
| Miscellaneous . . . . .  | 136,115             |
| <b>Total general revenues . . . . .</b>                                  | <b>18,171,741</b>   |
| Change in net assets . . . . .   | (1,239,065)         |
| <b>Net assets at beginning of year (restated) . . . . .</b>              | <b>2,628,135</b>    |
| <b>Net assets at end of year . . . . .</b>                               | <b>\$ 1,389,070</b> |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2007

|  | <u>General</u>      | <u>Debt<br/>Service</u> | <u>Other<br/>Governmental<br/>Funds</u> | <u>Total<br/>Governmental<br/>Funds</u> |
|--|---------------------|-------------------------|---|---|
| <b>Assets:</b>   |                     |                         |   |   |
| Equity in pooled cash<br>and cash equivalents . . . . .              | \$ -                | \$ 435,145              | \$ 291,360                              | \$ 726,505                              |
| Cash with fiscal agent . . . . .                                     | -                   | -                       | 13,488                                  | 13,488                                  |
| Receivables:   |                     |                         |   |   |
| Taxes . . . . .  | 6,734,454           | 1,586,071               | 155,338                                 | 8,475,863                               |
| Accounts . . . . .   | 1,465               | -                       | 1,213                                   | 2,678                                   |
| Intergovernmental . . . . .  | -                   | -                       | 174,491                                 | 174,491                                 |
| Accrued interest . . . . .   | 811                 | -                       | -                                       | 811                                     |
| Due from other funds . . . . .                                       | -                   | 343,151                 | 523,546                                 | 866,697                                 |
| Prepayments . . . . .  | 14,942              | -                       | -                                       | 14,942                                  |
| Materials and supplies inventory . . . . .                           | 6,306               | -                       | 21,782                                  | 28,088                                  |
| Restricted assets:   |                     |                         |   |   |
| Equity in pooled cash<br>and cash equivalents . . . . .              | 105,250             | -                       | -                                       | 105,250                                 |
| Total assets. . . . .  | <u>\$ 6,863,228</u> | <u>\$ 2,364,367</u>     | <u>\$ 1,181,218</u>                     | <u>\$ 10,408,813</u>                    |
| <b>Liabilities:</b>  |                     |                         |   |   |
| Accounts payable. . . . .  | \$ 81,789           | \$ -                    | \$ 38,978                               | \$ 120,767                              |
| Retainage payable . . . . .  | -                   | -                       | 13,488                                  | 13,488                                  |
| Accrued wages and benefits . . . . .                                 | 1,585,816           | -                       | 138,049                                 | 1,723,865                               |
| Compensated absences payable . . . . .                               | 52,963              | -                       | 19,080                                  | 72,043                                  |
| Early retirement incentive payable. . . . .                          | 192,712             | -                       | -                                       | 192,712                                 |
| Pension obligation payable. . . . .                                  | 514,627             | -                       | 25,115                                  | 539,742                                 |
| Intergovernmental payable. . . . .                                   | 333,645             | -                       | 5,801                                   | 339,446                                 |
| Due to other funds. . . . .  | 115,036             | -                       | 751,661                                 | 866,697                                 |
| Deferred revenue. . . . .  | 189,397             | 46,708                  | 77,957                                  | 314,062                                 |
| Unearned revenue. . . . .  | 6,193,442           | 1,452,776               | 144,688                                 | 7,790,906                               |
| Total liabilities . . . . .  | <u>9,259,427</u>    | <u>1,499,484</u>        | <u>1,214,817</u>                        | <u>11,973,728</u>                       |
| <b>Fund Balances:</b>  |                     |                         |   |   |
| Reserved for encumbrances . . . . .                                  | 76,272              | -                       | 95,881                                  | 172,153                                 |
| Reserved for materials and<br>supplies inventory . . . . .           | 6,306               | -                       | 21,782                                  | 28,088                                  |
| Reserved for debt service . . . . .                                  | -                   | 778,296                 | -                                       | 778,296                                 |
| Reserved for instructional materials. . . . .                        | 105,250             | -                       | -                                       | 105,250                                 |
| Reserved for property tax unavailable<br>for appropriation . . . . . | 351,615             | 86,587                  | 6,959                                   | 445,161                                 |
| Reserved for prepayments . . . . .                                   | 14,942              | -                       | -                                       | 14,942                                  |
| Unreserved, undesignated (deficit), reported in:                     |                     |                         |   |   |
| General fund . . . . .   | (2,950,584)         | -                       | -                                       | (2,950,584)                             |
| Special revenue funds. . . . .                                       | -                   | -                       | 101,827                                 | 101,827                                 |
| Capital projects funds. . . . .                                      | -                   | -                       | (260,048)                               | (260,048)                               |
| Total fund balances (deficit) . . . . .                              | <u>(2,396,199)</u>  | <u>864,883</u>          | <u>(33,599)</u>                         | <u>(1,564,915)</u>                      |
| Total liabilities and fund balances. . . . .                         | <u>\$ 6,863,228</u> | <u>\$ 2,364,367</u>     | <u>\$ 1,181,218</u>                     | <u>\$ 10,408,813</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, 2007

|  |              |                     |
|--|--------------|---------------------|
| <b>Total governmental fund balances (deficit)</b>  |              | \$ (1,564,915)      |
| <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.                    |              | 25,841,431          |
| Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.                   |              |                     |
| Taxes  | \$ 239,796   |                     |
| Intergovernmental  | 74,266       |                     |
| Total  |              | 314,062             |
| Unamortized premiums on bond issuances are not recognized in the funds.  |              | (433,797)           |
| Unamortized bond issue costs are not recognized in the funds.  |              | 252,959             |
| Accrued interest payable is not due and payable in the current period and therefore is not reported in the funds.                          |              | (75,147)            |
| 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   | (21,429,864) |                     |
| Compensated absences   | (1,515,659)  |                     |
| Total  |              | (22,945,523)        |
| <b>Net assets of governmental activities</b>   |              | <b>\$ 1,389,070</b> |

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, 2007

|   | <u>General</u>               | <u>Debt<br/>Service</u>  | <u>Other<br/>Governmental<br/>Funds</u> | <u>Total<br/>Governmental<br/>Funds</u> |
|---|------------------------------|--------------------------|---|---|
| <b>Revenues:</b>  |                              |                          |   |   |
| From local sources:   |                              |                          |   |   |
| Taxes . . . . .   | \$ 6,535,444                 | \$ 1,544,518             | \$ 170,229                              | \$ 8,250,191                            |
| Tuition . . . . .   | 486,340                      | -                        | -                                       | 486,340                                 |
| Earnings on investments . . . . .                             | 47,868                       | 21,790                   | 31,495                                  | 101,153                                 |
| Charges for services . . . . .                                | -                            | -                        | 460,091                                 | 460,091                                 |
| Extracurricular . . . . .                                     | 6,409                        | -                        | 244,825                                 | 251,234                                 |
| Classroom materials and fees . . . . .                        | 13,341                       | -                        | -                                       | 13,341                                  |
| Other local revenues . . . . .                                | 76,005                       | -                        | 113,602                                 | 189,607                                 |
| Intergovernmental - Intermediate . . . . .                    | -                            | -                        | 2,000                                   | 2,000                                   |
| Intergovernmental - State . . . . .                           | 10,123,904                   | 194,531                  | 244,907                                 | 10,563,342                              |
| Intergovernmental - Federal . . . . .                         | -                            | -                        | 926,489                                 | 926,489                                 |
| Total revenue . . . . .                                       | <u>17,289,311</u>            | <u>1,760,839</u>         | <u>2,193,638</u>                        | <u>21,243,788</u>                       |
| <b>Expenditures:</b>  |                              |                          |   |   |
| Current:  |                              |                          |   |   |
| Instruction:  |                              |                          |   |   |
| Regular . . . . .   | 9,617,398                    | -                        | 181,823                                 | 9,799,221                               |
| Special . . . . .   | 2,135,671                    | -                        | 467,652                                 | 2,603,323                               |
| Vocational . . . . .  | 296,671                      | -                        | -                                       | 296,671                                 |
| Other . . . . .   | 137,759                      | -                        | -                                       | 137,759                                 |
| Support Services:   |                              |                          |   |   |
| Pupil . . . . .   | 1,005,188                    | -                        | 219,072                                 | 1,224,260                               |
| Instructional staff . . . . .                                 | 258,286                      | -                        | 5,387                                   | 263,673                                 |
| Board of education . . . . .                                  | 67,592                       | -                        | -                                       | 67,592                                  |
| Administration . . . . .                                      | 1,749,934                    | -                        | 7,437                                   | 1,757,371                               |
| Fiscal . . . . .  | 376,876                      | 23,000                   | 2,827                                   | 402,703                                 |
| Operations and maintenance . . . . .                          | 1,819,539                    | -                        | 172,078                                 | 1,991,617                               |
| Pupil transportation . . . . .                                | 1,020,509                    | -                        | -                                       | 1,020,509                               |
| Central . . . . .   | 362,957                      | -                        | 105,878                                 | 468,835                                 |
| Operation of non-instructional services . . . . .             | 21,248                       | -                        | 25,878                                  | 47,126                                  |
| Extracurricular activities . . . . .                          | 317,922                      | -                        | 165,945                                 | 483,867                                 |
| Facilities acquisition and construction . . . . .             | -                            | -                        | 1,638,960                               | 1,638,960                               |
| Intergovernmental pass through . . . . .                      | -                            | -                        | 80,747                                  | 80,747                                  |
| Food service operations . . . . .                             | -                            | -                        | 758,347                                 | 758,347                                 |
| Debt service:   |                              |                          |   |   |
| Principal retirement . . . . .                                | -                            | 630,000                  | -                                       | 630,000                                 |
| Interest and fiscal charges . . . . .                         | -                            | 901,765                  | -                                       | 901,765                                 |
| Total expenditures . . . . .                                  | <u>19,187,550</u>            | <u>1,554,765</u>         | <u>3,832,031</u>                        | <u>24,574,346</u>                       |
| Excess of revenues over (under) expenditures . . . . .        | <u>(1,898,239)</u>           | <u>206,074</u>           | <u>(1,638,393)</u>                      | <u>(3,330,558)</u>                      |
| <b>Other financing sources:</b>                               |                              |                          |   |   |
| Sale of capital assets . . . . .                              | 76,090                       | -                        | -                                       | 76,090                                  |
| Total other financing sources . . . . .                       | <u>76,090</u>                | <u>-</u>                 | <u>-</u>                                | <u>76,090</u>                           |
| Net change in fund balances . . . . .                         | (1,822,149)                  | 206,074                  | (1,638,393)                             | (3,254,468)                             |
| <b>Fund balance (deficit) at beginning</b>                    |                              |                          |   |   |
| of year (restated) . . . . .                                  | (569,635)                    | 658,809                  | 1,595,005                               | 1,684,179                               |
| <b>Increase (decrease) in reserve for inventory . . . . .</b> | <b>(4,415)</b>               | <b>-</b>                 | <b>9,789</b>                            | <b>5,374</b>                            |
| <b>Fund balances (deficit) at end of year . . . . .</b>       | <b><u>\$ (2,396,199)</u></b> | <b><u>\$ 864,883</u></b> | <b><u>\$ (33,599)</u></b>               | <b><u>\$ (1,564,915)</u></b>            |

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, 2007

|   |              |             |
|---|--------------|-------------|
| <b>Net change in fund balances - total governmental funds</b>   | \$           | (3,254,468) |
| <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 exceed depreciation expense in the current period. |              |             |
| Capital asset additions   | \$ 2,267,451 |             |
| Current year depreciation   | (919,274)    |             |
| Total   |              | 1,348,177   |
| The net effect of various miscellaneous transactions involving capital assets (i.e. sales, disposals, trade-ins, and donations) is to decrease net assets.  |              |             |
|   |              | (12,467)    |
| Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.  |              |             |
| Taxes   | 69,175       |             |
| Intergovernmental revenue   | 64,671       |             |
| Accrued interest  | (5,413)      |             |
| Total   |              | 128,433     |
| In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, interest is expensed when due.   |              |             |
|   |              | (152,106)   |
| 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 are reported as expenditures in governmental funds, but the repayment reduces long-term liabilities on the statement of net assets.   |              |             |
|   |              | 630,000     |
| Governmental funds report expenditures for inventory when purchased, however, on the statement of activities, they are reported as expenditures when consumed.  |              |             |
|   |              | 5,374       |
| Some expenses reported in the statement of activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.  |              |             |
|   |              | 59,924      |
| <b>Change in net assets of governmental activities</b>  | \$           | (1,239,065) |

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, 2007

|  | <u>Budgeted Amounts</u> |                    | <u>Actual</u>       | <u>Variance with<br/>Final Budget<br/>Positive<br/>(Negative)</u> |
|--|-------------------------|--------------------|---------------------|---|
|  | <u>Original</u>         | <u>Final</u>       |                     |   |
| <b>Revenues:</b>                                       |                         |                    |                     |   |
| From local sources:                                    |                         |                    |                     |   |
| Taxes . . . . .  | \$ 6,605,226            | \$ 6,716,521       | \$ 6,565,801        | \$ (150,720)  |
| Tuition. . . . .                                       | 489,260                 | 497,504            | 486,340             | (11,164)  |
| Earnings on investments. . . . .                       | 68,181                  | 69,330             | 67,774              | (1,556)   |
| Extracurricular. . . . .                               | 6,005                   | 6,106              | 5,969               | (137)   |
| Classroom materials and fees . . . . .                 | 13,421                  | 13,647             | 13,341              | (306)   |
| Other local revenues. . . . .                          | 77,225                  | 78,526             | 76,764              | (1,762)   |
| Intergovernmental - State . . . . .                    | 10,184,693              | 10,356,300         | 10,123,903          | (232,397)   |
| Total revenue . . . . .                                | <u>17,444,011</u>       | <u>17,737,934</u>  | <u>17,339,892</u>   | <u>(398,042)</u>  |
| <b>Expenditures:</b>                                   |                         |                    |                     |   |
| Current:   |                         |                    |                     |   |
| Instruction:   |                         |                    |                     |   |
| Regular . . . . .                                      | 9,517,080               | 9,667,297          | 9,664,439           | 2,858   |
| Special. . . . .                                       | 2,113,769               | 2,147,133          | 2,138,378           | 8,755   |
| Vocational. . . . .                                    | 290,493                 | 295,078            | 294,663             | 415   |
| Other. . . . .   | 140,681                 | 142,902            | 142,544             | 358   |
| Support Services:                                      |                         |                    |                     |   |
| Pupil. . . . .   | 764,675                 | 776,745            | 772,857             | 3,888   |
| Instructional staff . . . . .                          | 254,025                 | 258,034            | 257,775             | 259   |
| Board of education . . . . .                           | 61,933                  | 62,911             | 61,800              | 1,111   |
| Administration. . . . .                                | 1,716,261               | 1,743,350          | 1,742,447           | 903   |
| Fiscal . . . . .                                       | 363,152                 | 368,884            | 366,547             | 2,337   |
| Operations and maintenance. . . . .                    | 1,757,349               | 1,785,087          | 1,784,224           | 863   |
| Pupil transportation . . . . .                         | 1,000,005               | 1,015,788          | 1,014,453           | 1,335   |
| Central. . . . .                                       | 388,711                 | 394,846            | 394,050             | 796   |
| Operation of non-instructional services . . . . .      | 21,390                  | 21,728             | 21,728              | -   |
| Extracurricular activities. . . . .                    | 313,890                 | 318,844            | 317,409             | 1,435   |
| Total expenditures . . . . .                           | <u>18,703,414</u>       | <u>18,998,627</u>  | <u>18,973,314</u>   | <u>25,313</u>   |
| Deficiency of revenues under<br>expenditures. . . . .  | <u>(1,259,403)</u>      | <u>(1,260,693)</u> | <u>(1,633,422)</u>  | <u>(372,729)</u>  |
| <b>Other financing sources:</b>                        |                         |                    |                     |   |
| Sale of capital assets. . . . .                        | 76,547                  | 77,837             | 76,090              | (1,747)   |
| Total other financing sources . . . . .                | <u>76,547</u>           | <u>77,837</u>      | <u>76,090</u>       | <u>(1,747)</u>  |
| Net change in fund balance . . . . .                   | (1,182,856)             | (1,182,856)        | (1,557,332)         | (374,476)   |
| <b>Fund balance at beginning of year . . . . .</b>     | 797,216                 | 797,216            | 797,216             | -   |
| <b>Prior year encumbrances appropriated . . . . .</b>  | 373,476                 | 373,476            | 373,476             | -   |
| <b>Fund balance (deficit) at end of year . . . . .</b> | <u>\$ (12,164)</u>      | <u>\$ (12,164)</u> | <u>\$ (386,640)</u> | <u>\$ (374,476)</u>   |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUND  
JUNE 30, 2007

|   |        | <u>Agency</u>            |
|---|--------|--------------------------|
| <b>Assets:</b>  |        |                          |
| Equity in pooled cash<br>and cash equivalents . . . . . | \$     | 89,605                   |
| <b>Receivables:</b>                                     |        |                          |
| Accounts . . . . .                                      |        | <u>50</u>                |
| <br>Total assets . . . . .                              | <br>\$ | <br><u><u>89,655</u></u> |
| <b>Liabilities:</b>                                     |        |                          |
| Accounts payable . . . . .                              | \$     | 10,700                   |
| Due to students. . . . .                                |        | <u>78,955</u>            |
| <br>Total liabilities. . . . .                          | <br>\$ | <br><u><u>89,655</u></u> |

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, 2007

**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 203rd largest by total enrollment among the 876 public and community school districts in the State. The District employs 109 non-certified and 179 certified employees to provide services to approximately 2,420 students in grades K through 12 and various community groups. The District operates two elementary schools, one intermediate school, 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" as amended by GASB Statement No. 39, "Determining Whether Certain Organizations Are Component Units". 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 organization's 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; or (4) 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 these 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, 2007

**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 38<sup>th</sup> 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 histories of all participating members are 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, 2007

**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.

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; (b) food service operations; and (c) 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.

**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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

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

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, 2007

**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 6). 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.

*Unearned Revenue and Deferred Revenue* - Unearned revenue and deferred revenue arise 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, 2007, but which were levied to finance fiscal year 2008 operations, and other revenues received in advance of the fiscal year for which they are intended to finance, have been recorded as unearned revenue. Grants and entitlements received before the eligibility requirements are met and delinquent property taxes due at June 30, 2007 are recorded as deferred revenue.

On governmental fund financial statements, receivables that will not be collected within the available period have 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 costs, 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 object level for the general fund and at the fund level for all other 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 object level of expenditures for the general fund, 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, 2007

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

Tax Budget:

On October 25, 2005, the Stark County Budget Commission voted to waive the requirement that school districts adopt a tax budget as required by Section 5705.28 of the Ohio Revised Code, by January 15<sup>th</sup> and the filing by January 20<sup>th</sup>. The Budget Commission now requires an alternate tax budget be submitted by January 20<sup>th</sup>, which no longer requires specific Board approval.

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 Estimated Resources that was in effect at the time the original and 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 covering 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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

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

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.

**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 2007, investments were limited to 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 2007. 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, 2007.

Under existing Ohio statutes all investment earning 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 2007 amounted to \$47,868, which includes \$28,194 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 District'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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

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

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

**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 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<br/>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 "due to/from other funds." These amounts are eliminated in the governmental activities column on the statement of net assets.

**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.



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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

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

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

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. Bonds are recognized as a liability in the fund financial statements when due.

**L. Unamortized Bond Issuance Costs and Bond Premium**

On government-wide financial statements, bond issuance costs are deferred and amortized over the term of the bonds using the straight line method, which approximates the effective interest method. Unamortized bond issuance costs are recorded as an asset on the financial statements.

Bond premiums are deferred and accreted over the term of the bonds. Bond premiums are presented as an addition to the face amount of the bonds. Capital appreciation bond discounts are accreted over the term of the bonds.

On the governmental fund financial statements, issuance costs and bond premiums are recognized in the current period.

**M. 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 instructional materials. The reserve for property taxes unavailable for appropriation represents taxes recognized as revenue under GAAP but not available for appropriation under State statute.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

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

**N. Net Assets**

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists 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 enabling legislation or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The amount restricted for other purposes represent amounts restricted by State statute for instructional materials.

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

**O. 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.

**P. 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.

**Q. 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 instructional materials. See Note 16 for additional information regarding set-asides.

**R. 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 activities between governmental funds are eliminated in the statement of activities.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

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

**S. 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 2007.

**NOTE 3 - ACCOUNTABILITY AND COMPLIANCE**

**A. Prior Period Adjustments**

Beginning governmental fund balances have been restated in order to properly record the District's accrued interest receivable and fair market value (FMV) adjustment. This adjustment had no effect on net assets at June 30, 2006. The adjustment had the following effect on governmental fund balances at June 30, 2006:

|  | <u>General</u>      | <u>Debt<br/>Service</u> | <u>Other<br/>Governmental<br/>Funds</u> | <u>Total<br/>Governmental<br/>Funds</u> |
|--|---------------------|-------------------------|---|---|
| Fund balance (deficit)<br>at June 30, 2006.            | \$ (516,485)        | \$ 650,181              | \$ 1,550,483                            | \$ 1,684,179                            |
| Adjustment for accrued<br>interest and FMV             | <u>(53,150)</u>     | <u>8,628</u>            | <u>44,522</u>                           | <u>-</u>                                |
| Fund balance (deficit) at<br>at July 1, 2006, restated | <u>\$ (569,635)</u> | <u>\$ 658,809</u>       | <u>\$ 1,595,005</u>                     | <u>\$ 1,684,179</u>                     |

Beginning net assets of the governmental activities have been restated in order to account for errors and omissions in the capital asset balances recorded in prior fiscal years. The adjustment had the following effect on net assets of the governmental activities at June 30, 2006:

|                                      | <u>Governmental<br/>Activities</u> |
|--------------------------------------|------------------------------------|
| Net assets at June 30, 2006          | \$ 1,985,631                       |
| Adjustment for capital assets        | <u>642,504</u>                     |
| Net assets at July 1, 2006, restated | <u>\$ 2,628,135</u>                |

**NORTHWEST LOCAL SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

**NOTE 3 - ACCOUNTABILITY AND COMPLIANCE – (Continued)**

**B. Deficit Fund Balances**

Fund balances at June 30, 2007 included the following individual fund deficits:

|                                    | <u>Deficit</u> |
|------------------------------------|----------------|
| <u>Major Governmental Fund</u>     |                |
| General Fund                       | \$ 2,396,199   |
| <u>Nonmajor Governmental Funds</u> |                |
| Food Service                       | 18,917         |
| Ohio Reads                         | 119            |
| Title I                            | 3,654          |
| Miscellaneous Federal Grant Fund   | 2,608          |
| Building                           | 748,696        |

The general fund is liable for any deficits in these funds and provides transfers when cash is required, not when accruals occur. The deficit fund balances result from adjustments for accrued liabilities. The General Fund, Building capital projects fund and Miscellaneous Federal Grant special revenue fund did not comply with State law which does not allow for a negative cash balance at year-end. All other funds complied.

**C. Compliance**

Contrary to Ohio Revised Code Section 5705.10, the District had the following negative cash balances at June 30, 2007 in the following funds:

|                                    | <u>Balance</u> |
|------------------------------------|----------------|
| <u>Major Governmental Fund</u>     |                |
| General                            | \$ 9,786       |
| <u>Nonmajor Governmental Funds</u> |                |
| Miscellaneous Federal Grants       | 2,965          |
| Building                           | 748,696        |

Contrary to Section 5705.39, Ohio Revised Code, the General Fund had appropriations in excess of estimated revenues plus carryover balances at June 30, 2007.

**NOTE 4 - DEPOSITS AND INVESTMENTS**

State statutes classify 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 that the Board of Education has identified as not required for use within the current five 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.

**NORTHWEST LOCAL SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

**NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)**

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 or deposit accounts including passbook accounts.

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 and 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, 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 items (1) and (2) above 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 banker's acceptance and commercial paper notes for a period not to exceed one hundred eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest classifications by at least two nationally recognized rating agencies.

Protection of the 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.

**NORTHWEST LOCAL SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

**NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)**

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, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

**A. Cash on Hand**

At year-end, the District had \$1,590 in undeposited cash on hand which is included on the financial statements of the District as part of "Equity in Pooled Cash and Cash Equivalents."

**B. Cash with Fiscal Agent**

The District has money held in accounts by other agents for retainage related to construction contracts. The money held by the fiscal agent cannot be identified as an investment or deposit, since it is held in a pool made up of numerous participants. The amount held by the fiscal agent at June 30, 2007 was \$13,488 and is not included in "Deposits with Financial Institutions" below.

**C. Deposits with Financial Institutions**

At June 30, 2007, the carrying amount of all District deposits was \$44,190. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2007, \$72,098 of the District's bank balance of \$255,998 was exposed to custodial risk as discussed below, while \$183,900 was covered by the Federal Deposit Insurance Corporation.

Custodial credit risk is the risk that, in the event of bank failure, the District's deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the District.

**D. Investments**

As of June 30, 2007, the District had the following investments and maturities:

| <u>Investment type</u> | <u>Fair Value</u> | <u>Investment<br/>Maturities<br/>6 months or<br/>less</u> |
|------------------------|-------------------|---|
| STAR Ohio              | \$ 875,580        | \$ 875,580  |
|                        | <u>\$ 875,580</u> | <u>\$ 875,580</u>   |

**NORTHWEST LOCAL SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

**NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)**

*Interest Rate Risk:* As a means of limiting its exposure to fair value losses arising from rising interest rates and according to State law, the District's investment policy limits investment portfolio maturities to five years or less.

*Credit Risk:* Standard & Poor's has assigned STAR Ohio an AAAM money market rating.

*Concentration of Credit Risk:* The District places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the District at June 30, 2007:

| <u>Investment type</u> | <u>Fair Value</u> | <u>% of Total</u> |
|------------------------|-------------------|-------------------|
| STAR Ohio              | \$ 875,580        | 100.00            |
|                        | <u>\$ 875,580</u> | <u>100.00</u>     |

**E. Reconciliation of Cash and Investments to the Statement of Net Assets**

The following is a reconciliation of cash and investments as reported in the footnote above to cash and investments as reported on the statement of net assets as of June 30, 2007:

|   |    |                |
|---|----|----------------|
| <u>Cash and Investments per footnote</u>                    |    |                |
| Carrying amount of deposits                                 | \$ | 44,190         |
| Investments   |    | 875,580        |
| Cash with fiscal agent                                      |    | 13,488         |
| Cash on hand  |    | <u>1,590</u>   |
| Total   | \$ | <u>934,848</u> |
| <br><u>Cash and investments per Statement of Net Assets</u> |    |                |
| Governmental activities                                     | \$ | 845,243        |
| Agency fund   |    | <u>89,605</u>  |
| Total   | \$ | <u>934,848</u> |

**NOTE 5 - INTERFUND TRANSACTIONS**

Due to/from other funds consisted of the following at June 30, 2007:

| <u>Receivable Fund</u>      | <u>Payable Fund</u>         | <u>Amount</u> |
|-----------------------------|-----------------------------|---------------|
| Debt Service                | General                     | \$ 115,036    |
| Debt Service                | Nonmajor governmental funds | 228,115       |
| Nonmajor governmental funds | Nonmajor governmental funds | 523,546       |

The primary purpose of the interfund balances is to cover costs in specific funds where revenues were not received by June 30. These interfund balances will be repaid once the anticipated revenues are received.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

**NOTE 5 - INTERFUND TRANSACTIONS - (Continued)**

Interfund balances between governmental funds are eliminated on the government-wide financial statements; therefore, no internal balances at June 30, 2007 are reported on the statement of net assets.

**NOTE 6 - PROPERTY TAXES**

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 2007 represents collections of calendar year 2006 taxes. Real property taxes received in calendar year 2007 were levied after April 1, 2006, on the assessed value listed as of January 1, 2006, 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 2007 represents collections of calendar year 2006 taxes. Public utility real and tangible personal property taxes received in calendar year 2007 became a lien January 1, 2006, were levied after April 1, 2006 and are collected in 2007 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 2007 (other than public utility property) represents the collection of 2007 taxes. Tangible personal property taxes received in calendar year 2007 were levied after April 1, 2007, on the value as of January 1, 2007. For 2006, tangible personal property is assessed at 18.75% for property including inventory. This percentage will be reduced to 12.5% for 2007, 6.25% for 2008 and zero for 2009. 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.

House Bill No. 66 was signed into law on June 30, 2005. House Bill No. 66 phases out the tax on tangible personal property of general businesses, telephone and telecommunications companies, and railroads. The tax on general business and railroad property will be eliminated by calendar year 2009, and the tax on telephone and telecommunications property will be eliminated by calendar year 2011. The tax is phased out by reducing the assessment rate on the property each year. The bill replaces the revenue lost by the District due to the phasing out of the tax. In calendar years 2006-2010, the District will be fully reimbursed for the lost revenue. In calendar years 2011-2017, the reimbursements will be phased out.

The District receives property taxes from Stark, Wayne and Summit Counties. The Fiscal Officer/County Auditors periodically advance to the District their portion of the taxes collected. Second-half real property tax payments collected by the Counties by June 30, 2007, are available to finance fiscal year 2007 operations. The amount available as an advance at June 30, 2007 was \$351,615 in the general fund, \$86,587 in the debt service fund and \$6,959 in the permanent improvement fund, a nonmajor governmental fund. This amount has been recorded as revenue. The amount that was available as an advance at June 30, 2006 was \$381,972 in the general fund, \$97,782 in the debt service fund and \$7,742 in the permanent improvement fund, a nonmajor governmental fund.



**NORTHWEST LOCAL SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

**NOTE 6 - PROPERTY TAXES – (Continued)**

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2007 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 unearned 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.

The assessed values upon which the fiscal year 2007 taxes were collected are:

|  | 2006 Second<br>Half Collections |                | 2007 First<br>Half Collections |                |
|--|---------------------------------|----------------|--------------------------------|----------------|
|  | <u>Amount</u>                   | <u>Percent</u> | <u>Amount</u>                  | <u>Percent</u> |
| Agricultural/Residential<br>and Other Real Estate  | \$ 227,422,240                  | 92.12          | \$ 236,515,250                 | 94.75          |
| Public Utility Personal                            | 7,764,390                       | 3.15           | 6,874,340                      | 2.76           |
| Tangible Personal Property                         | <u>11,675,165</u>               | <u>4.73</u>    | <u>6,232,108</u>               | <u>2.49</u>    |
| Total  | <u>\$ 246,861,795</u>           | <u>100.00</u>  | <u>\$ 249,621,698</u>          | <u>100.00</u>  |
| Tax rate per \$1,000 of<br>assessed valuation for: |                                 |                |                                |                |
| Operations   | \$52.30                         |                | \$52.30                        |                |
| Permanent improvements                             | 3.00                            |                | 3.00                           |                |
| Debt service                                       | 7.00                            |                | 7.00                           |                |

**NOTE 7 - RECEIVABLES**

Receivables at June 30, 2007 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:

| <b>Governmental Activities</b> |                     |
|--------------------------------|---------------------|
| Taxes                          | \$ 8,475,863        |
| Accounts                       | 2,678               |
| Intergovernmental              | 174,491             |
| Accrued interest               | <u>811</u>          |
| Total                          | <u>\$ 8,653,843</u> |

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

**NORTHWEST LOCAL SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

**NOTE 8 - CAPITAL ASSETS**

Capital assets have been restated due to errors and omissions in prior fiscal years. The restatement increased the net capital asset balance by \$642,504 at June 30, 2006.

|   | <u>Balance<br/>06/30/06</u> | <u>Adjustments</u> | <u>Restated<br/>Balance<br/>06/30/06</u> |
|---|-----------------------------|--------------------|--|
| <b>Governmental Activities</b>              |                             |                    |  |
| Capital assets, not being depreciated:      |                             |                    |  |
| Land  | \$ 133,138                  | \$ -               | \$ 133,138                               |
| Construction in progress                    | <u>14,456,955</u>           | <u>621,503</u>     | <u>15,078,458</u>                        |
| Total capital assets, not being depreciated | <u>14,590,093</u>           | <u>621,503</u>     | <u>15,211,596</u>                        |
| Capital assets, being depreciated:          |                             |                    |  |
| Buildings and improvements                  | 12,181,398                  | -                  | 12,181,398                               |
| Furniture and equipment                     | 1,620,398                   | 14,801             | 1,635,199                                |
| Vehicles                                    | <u>1,749,987</u>            | <u>-</u>           | <u>1,749,987</u>                         |
| Total capital assets, being depreciated     | <u>15,551,783</u>           | <u>14,801</u>      | <u>15,566,584</u>                        |
| Less: accumulated depreciation              |                             |                    |  |
| Buildings and improvements                  | (3,918,470)                 | -                  | (3,918,470)                              |
| Furniture and equipment                     | (1,166,884)                 | 6,200              | (1,160,684)                              |
| Vehicles                                    | <u>(1,193,305)</u>          | <u>-</u>           | <u>(1,193,305)</u>                       |
| Total accumulated depreciation              | <u>(6,278,659)</u>          | <u>6,200</u>       | <u>(6,272,459)</u>                       |
| Governmental activities capital assets, net | <u>\$ 23,863,217</u>        | <u>\$ 642,504</u>  | <u>\$ 24,505,721</u>                     |

**NORTHWEST LOCAL SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

**NOTE 8 - CAPITAL ASSETS – (Continued)**

Capital asset activity for the fiscal year ended June 30, 2007, was as follows:

|   | Restated<br>Balance<br><u>06/30/06</u> | <u>Additions</u>     | <u>Deductions</u>      | Balance<br><u>06/30/07</u> |
|---|--|----------------------|------------------------|----------------------------|
| <b>Governmental Activities</b>                |  |                      |                        |                            |
| <i>Capital assets, not being depreciated:</i> |  |                      |                        |                            |
| Land  | \$ 133,138                             | \$ -                 | \$ -                   | \$ 133,138                 |
| Construction in progress                      | <u>15,078,458</u>                      | <u>1,684,231</u>     | <u>(16,762,689)</u>    | <u>-</u>                   |
| Total capital assets, not being depreciated   | <u>15,211,596</u>                      | <u>1,684,231</u>     | <u>(16,762,689)</u>    | <u>133,138</u>             |
| <i>Capital assets, being depreciated:</i>     |  |                      |                        |                            |
| Buildings and improvements                    | 12,181,398                             | 16,803,257           | (170,468)              | 28,814,187                 |
| Furniture and equipment                       | 1,635,199                              | 542,652              | (22,227)               | 2,155,624                  |
| Vehicles                                      | <u>1,749,987</u>                       | <u>-</u>             | <u>(193,283)</u>       | <u>1,556,704</u>           |
| Total capital assets, being depreciated       | <u>15,566,584</u>                      | <u>17,345,909</u>    | <u>(385,978)</u>       | <u>32,526,515</u>          |
| <i>Less: accumulated depreciation</i>         |  |                      |                        |                            |
| Buildings and improvements                    | (3,918,470)                            | (632,054)            | 170,468                | (4,380,056)                |
| Furniture and equipment                       | (1,160,684)                            | (154,236)            | 22,227                 | (1,292,693)                |
| Vehicles                                      | <u>(1,193,305)</u>                     | <u>(132,984)</u>     | <u>180,816</u>         | <u>(1,145,473)</u>         |
| Total accumulated depreciation                | <u>(6,272,459)</u>                     | <u>(919,274)</u>     | <u>373,511</u>         | <u>(6,818,222)</u>         |
| Governmental activities capital assets, net   | <u>\$ 24,505,721</u>                   | <u>\$ 18,110,866</u> | <u>\$ (16,775,156)</u> | <u>\$ 25,841,431</u>       |

Depreciation expense was charged to governmental functions as follows:

|                            |                   |
|----------------------------|-------------------|
| <u>Instruction:</u>        |                   |
| Regular                    | \$ 542,450        |
| Special                    | 12,665            |
| Vocational                 | 3,533             |
| <u>Support Services:</u>   |                   |
| Pupil                      | 6,890             |
| Instructional staff        | 29,359            |
| Administration             | 20,362            |
| Fiscal                     | 756               |
| Operations and maintenance | 43,839            |
| Pupil transportation       | 126,583           |
| Central                    | 2,550             |
| Extracurricular activities | 57,733            |
| Food service operations    | <u>72,554</u>     |
| Total depreciation expense | <u>\$ 919,274</u> |

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

**NOTE 9 - LONG-TERM OBLIGATIONS**

- A. During the fiscal year 2007, the following changes occurred in governmental activities long-term obligations:

|  | Balance<br>Outstanding<br>June 30, 2006 | Additions         | Deletions           | Balance<br>Outstanding<br>June 30, 2007 | Amount<br>Due in<br>One Year |
|--|---|-------------------|---------------------|---|------------------------------|
| <u>General Obligation Bonds:</u>   |   |                   |                     |   |                              |
| Series 2002, Improvement<br>Current Interest Bonds<br>12/01/29 maturity  | \$ 20,300,000                           | \$ -              | \$ -                | \$ 20,300,000                           | \$ -                         |
| Series 2002, Improvement<br>Capital Appreciation Bonds<br>11.372% (average effective)<br>12/01/06 to 12/01/08 maturity | 1,069,986                               | -                 | (396,755)           | 673,231                                 | 355,213                      |
| Series 2002, Improvement<br>Capital Appreciation Bonds<br>Accreted interest  | <u>537,772</u>                          | <u>152,106</u>    | <u>(233,245)</u>    | <u>456,633</u>                          | <u>240,914</u>               |
| Total general obligation bonds   | <u>21,907,758</u>                       | <u>152,106</u>    | <u>(630,000)</u>    | <u>21,429,864</u>                       | <u>596,127</u>               |
| <u>Other Obligations:</u>  |   |                   |                     |   |                              |
| Early retirement incentive   | -                                       | 192,712           | -                   | 192,712                                 | 192,712                      |
| Compensated absences   | <u>1,592,396</u>                        | <u>218,541</u>    | <u>(223,235)</u>    | <u>1,587,702</u>                        | <u>118,867</u>               |
| Total other obligations  | <u>1,592,396</u>                        | <u>411,253</u>    | <u>(223,235)</u>    | <u>1,780,414</u>                        | <u>311,579</u>               |
| Total all governmental activities<br>long-term liabilities   | <u>\$ 23,500,154</u>                    | <u>\$ 563,359</u> | <u>\$ (853,235)</u> | 23,210,278                              | <u>\$ 907,706</u>            |
| Add: Unamortized premium on bond issuance  |   |                   |                     | <u>433,797</u>                          |                              |
| Total reported on the statement of net assets  |   |                   |                     | <u>\$ 23,644,075</u>                    |                              |

Compensated absences will be paid from the fund from which the employee is paid, which is primarily the general fund.

Early retirement incentive will be paid from the general fund.

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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

**NOTE 9 - LONG-TERM OBLIGATIONS – (Continued)**

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 \$1,069,986. 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 accreted value at maturity for the capital appreciation bonds is \$1,260,000. Total accreted interest of \$456,633 has been included in the statement of net assets at June 30, 2007. 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.

- B.** Principal and interest requirements to retire the general obligation bonds outstanding at June 30, 2007 are as follows:

| <u>Fiscal Year</u><br><u>Ending June 30</u> | <u>Current Interest</u><br><u>General Obligation Bonds</u> |                             |                             | <u>Capital Appreciation</u><br><u>General Obligation Bonds</u> |                          |                            |
|---|--|-----------------------------|-----------------------------|--|--------------------------|----------------------------|
|   | <u>Principal</u>   | <u>Interest</u>             | <u>Total</u>                | <u>Principal</u>   | <u>Interest</u>          | <u>Total</u>               |
| 2008  | \$ -   | \$ 901,765                  | \$ 901,765                  | \$ 355,213   | \$ 274,787               | \$ 630,000                 |
| 2009  | -  | 901,765                     | 901,765                     | 318,018  | 311,982                  | 630,000                    |
| 2010  | 630,000  | 889,165                     | 1,519,165                   | -  | -                        | -                          |
| 2011  | 655,000  | 865,758                     | 1,520,758                   | -  | -                        | -                          |
| 2012  | 675,000  | 843,474                     | 1,518,474                   | -  | -                        | -                          |
| 2013 - 2017                                 | 3,760,000  | 3,822,777                   | 7,582,777                   | -  | -                        | -                          |
| 2018 - 2022                                 | 4,590,000  | 2,953,791                   | 7,543,791                   | -  | -                        | -                          |
| 2023 - 2027                                 | 5,805,000  | 1,710,250                   | 7,515,250                   | -  | -                        | -                          |
| 2028 - 2030                                 | 4,185,000  | 304,355                     | 4,489,355                   | -  | -                        | -                          |
| <b>Total</b>                                | <b><u>\$ 20,300,000</u></b>                                | <b><u>\$ 13,193,100</u></b> | <b><u>\$ 33,493,100</u></b> | <b><u>\$ 673,231</u></b>                                       | <b><u>\$ 586,769</u></b> | <b><u>\$ 1,260,000</u></b> |

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

**NOTE 9 - LONG-TERM OBLIGATIONS – (Continued)**

**C. Legal Debt Margin**

The Ohio Revised Code provides that voted net general obligation debt of the District shall never exceed 9% of the total assessed valuation of the District. The code further provides that unvoted indebtedness shall not exceed 1/10 of 1% of the property valuation of the District. The code additionally states that unvoted indebtedness related to energy conservation debt shall not exceed 9/10 of 1% of the property valuation of the District. The assessed valuation used in determining the District's legal debt margin has been modified by House Bill 530 which became effective March 30, 2006. In accordance with House Bill 530, the assessed valuation used in the District's legal debt margin calculation excluded tangible personal property used in business, telephone or telegraph property, interexchange telecommunications company property, and personal property owned or leased by a railroad company and used in railroad operations. The effects of these debt limitations at June 30, 2007, are a voted debt margin of \$1,625,076 (including available funds of \$864,883) and an unvoted debt margin of \$241,482.

**NOTE 10 - 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-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. 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 Schools Council of Governments Health Benefits Program. Coverage in the amount of \$50,000 is provided for all certified and classified employees.

**C. Early Retirement Incentive**

The District offers an early retirement incentive for its certified staff. For anyone retiring at the end of fiscal year 2007, the District will purchase two years of service credit from the State Teachers Retirement System of Ohio (STRS Ohio). Five employees took this option during fiscal year 2007.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

**NOTE 11 - 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 2007, 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 Governments (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 95% of the cost of a monthly premium for classified employees. For fiscal year 2007, the District cost paid for premium for medical and dental was \$947.14 for family coverage and \$389.20 for single coverage, per month for certified employees and \$952.82 for family coverage and \$391.50 for single coverage, per month for classified employees.

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 performances 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, 2007

**NOTE 12 - PENSION PLANS**

**A. School Employees Retirement System**

The District contributes to the School Employees Retirement System (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 Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling (800) 878-5853. It is also posted on SERS' website, [www.ohsers.org](http://www.ohsers.org), under Forms and Publications.

Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14 percent 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 2007, 10.68 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2006, 10.58 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2005, 10.57 percent 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 statutory maximum amounts, by the SERS' Retirement Board. The District's required contribution for pension obligations to SERS for fiscal years ended 2007, 2006, and 2005 were \$272,489, \$270,229, and \$321,304, respectively; 41.02 percent has been contributed for fiscal year 2007 and 100 percent for fiscal years 2006 and 2005. \$160,722 represents the unpaid pension contribution for fiscal year 2007 and is recorded as a liability within the respective funds.

**B. State Teachers Retirement System of Ohio**

The District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3371, or by calling (614) 227-4090, or by visiting the STRS Ohio website at [www.strsoh.org](http://www.strsoh.org).

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 percent 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.



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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

**NOTE 12 - PENSION PLANS – (Continued)**

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.

For the fiscal year ended June 30, 2007, plan members were required to contribute 10 percent of their annual covered salaries. The District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal years 2006 and 2005, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The District's required contributions for fund pension obligations to the DB Plan for the fiscal years ended June 30, 2007, 2006, and 2005 were \$1,259,728, \$1,308,775 and \$1,242,988, respectively; 79.46 percent has been contributed for fiscal year 2007 and 100 percent for fiscal years 2006 and 2005. \$258,767 represents the unpaid pension contribution for fiscal year 2007 and is recorded as a liability within the respective funds. Contributions to the DC and Combined Plans for fiscal year 2007 were \$3,952 made by the District and \$32,486 made by plan members.

**C. Social Security System**

Effective July 1, 1991, all employees not otherwise covered by the SERS or the STRS Ohio have an option to choose Social Security or the SERS/STRS Ohio. As of June 30, 2007, certain members of the Board of Education have elected Social Security. The District's liability is 6.2% of wages paid.

**NOTE 13 - POSTEMPLOYMENT BENEFITS**

The District provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System of Ohio (STRS Ohio), and to retired non-certified employees and their dependents through the School Employees Retirement System (SERS). Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare premiums. Benefit provisions and the obligations to contribute are established by the Systems based on authority granted by State statute. Both systems are funded on a pay-as-you-go basis.

All STRS Ohio retirees who participated in the DB or combined plans and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2007, the STRS Ohio Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the District, this amount equaled \$96,902 for fiscal year 2007.

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2007, the balance in the Health Care Stabilization Fund was \$4.1 billion. For the fiscal year ended June 30, 2007, net health care costs paid by STRS Ohio were \$265.558 million and STRS Ohio had 122,934 eligible benefit recipients.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

**NOTE 13 - POSTEMPLOYMENT BENEFITS – (Continued)**

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. All retirees and beneficiaries are required to pay a portion of their premium for health care. The portion is based on years of service, Medicare eligibility, and retirement status.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2007, employer contributions to fund health care benefits were 3.32 percent of covered payroll, a decrease of .10 percent from fiscal year 2006. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2007, the minimum pay was established at \$35,800. Total surcharge is capped at 2 percent of each employer's SERS salaries. For the 2007 fiscal year, District paid \$135,254 to fund health care benefits, including the surcharge.

The surcharge, added to the unallocated portion of the 14 percent 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 percent of the projected claims less premium contributions for the next year. Expenses for health care for the fiscal year ended June 30, 2006 (the latest information available) were \$158.751 million. At June 30, 2006 (the latest information available), SERS had net assets available for payment of health care benefits of \$295.6 million. At June 30, 2006 (the latest information available), SERS had 59,492 participants currently receiving health care benefits.

**NOTE 14 - 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);
- (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).

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

**NOTE 14 - BUDGETARY BASIS OF ACCOUNTING – (Continued)**

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:

| <b>Net Change in Fund Balance</b>       |                       |
|---|-----------------------|
|   | <u>General Fund</u>   |
| Budget basis                            | \$ (1,557,332)        |
| Net adjustment for revenue accruals     | (50,581)              |
| Net adjustment for expenditure accruals | (591,090)             |
| Adjustment for encumbrances             | <u>376,854</u>        |
| GAAP basis                              | <u>\$ (1,822,149)</u> |

**NOTE 15 - 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.

**NOTE 16 - STATUTORY RESERVES**

The District is required by State statute to annually set-aside in the general fund an amount based on a statutory formula for the purchase of textbooks and other instructional materials and an equal amount for 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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

**NOTE 16 - STATUTORY RESERVES - (Continued)**

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

|  | <u>Textbooks/<br/>Instructional<br/>Materials</u> | <u>Capital<br/>Acquisition</u> |
|--|---|--------------------------------|
| Set-aside cash balance as of June 30, 2006 | \$ 28,438   | \$ -                           |
| Current year set-aside requirement         | 356,168   | 356,168                        |
| Current year offsets                       | -   | (20,860,014)                   |
| Qualifying disbursements                   | <u>(279,356)</u>                                  | <u>(387,736)</u>               |
| Total                                      | <u>\$ 105,250</u>                                 | <u>\$ (20,891,582)</u>         |
| Balance carried forward to FY 2008         | <u>\$ 105,250</u>                                 | <u>\$ (20,860,014)</u>         |

The District had qualifying disbursements during the year that reduced the set-aside amount below zero for the capital acquisition reserves; this extra amount may be used to reduce the set-aside requirements for future years. The negative amount is therefore presented as being carried forward to next fiscal year.

A schedule of the restricted assets at June 30, 2007 follows:

|                                   |                   |
|-----------------------------------|-------------------|
| Textbooks/Instructional Materials | <u>\$ 105,250</u> |
| Total restricted assets           | <u>\$ 105,250</u> |

**NOTE 17 – SIGNIFICANT SUBSEQUENT EVENT**

On August 6, 2007, the District entered into a \$1,300,000 lease-purchase agreement in connection with the Ohio Association of School Business Officials (OASBO) Expanded Asset Pooled Financing Program. The District will use the proceeds of this lease-purchase agreement to acquire, improve, furnish, renovate and equip school-related facilities.

**NORTHWEST LOCAL SCHOOL DISTRICT  
STARK COUNTY  
FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE  
FOR THE YEAR ENDED JUNE 30, 2007**

| Federal Grantor/<br>Pass Through Grantor/<br>Program Title    | Pass Through<br>Entity<br>Number     | Federal<br>CFDA<br>Number | Receipts            | Non-Cash<br>Receipts | Expenditures        | Non-Cash<br>Expenditures |
|---|--------------------------------------|---------------------------|---------------------|----------------------|---------------------|--------------------------|
| <b>U.S. DEPARTMENT OF AGRICULTURE</b>                         |                                      |                           |                     |                      |                     |                          |
| <i>Passed Through Ohio Department of Education:</i>           |                                      |                           |                     |                      |                     |                          |
| Child Nutrition Cluster:                                      |                                      |                           |                     |                      |                     |                          |
| National School Lunch Program                                 | 049908-LLP4-2006<br>049908-LLP4-2007 | 10.555                    | \$33,971<br>139,757 |                      | \$33,971<br>139,757 |                          |
| Total Child Nutrition Cluster                                 |                                      |                           | <b>173,728</b>      |                      | <b>173,728</b>      |                          |
| Food Distribution Program                                     | N/A                                  | 10.550                    |                     | \$82,081             |                     | \$82,081                 |
| Total U.S. Department of Agriculture                          |                                      |                           | <b>173,728</b>      | <b>82,081</b>        | <b>173,728</b>      | <b>82,081</b>            |
| <b>U.S. DEPARTMENT OF EDUCATION</b>                           |                                      |                           |                     |                      |                     |                          |
| <i>Passed Through Ohio Department of Education:</i>           |                                      |                           |                     |                      |                     |                          |
| Special Education Cluster:                                    |                                      |                           |                     |                      |                     |                          |
| Special Education Grants to States                            | 049908-6BSF-2006<br>049908-6BSF-2007 | 84.027                    | 1,884<br>424,597    |                      | 86,883<br>400,344   |                          |
| Total Special Education Cluster                               |                                      |                           | <b>426,481</b>      |                      | <b>487,227</b>      |                          |
| Title I Grants to Local Educational Agencies                  | 049908-C1S1-2006<br>049908-C1S1-2007 | 84.010                    | 3,351<br>166,579    |                      | 6,266<br>158,318    |                          |
| Total Title I Grants to Local Educational Agencies            |                                      |                           | <b>169,930</b>      |                      | <b>164,584</b>      |                          |
| Safe and Drug-Free Schools and Communities State Grants       | 049908-DRS1-2006<br>049908-DRS1-2007 | 84.186                    | (3,894)<br>10,954   |                      | 2,206<br>4,348      |                          |
| Total Safe and Drug-Free Schools and Communities State Grants |                                      |                           | <b>7,060</b>        |                      | <b>6,554</b>        |                          |
| State Grants for Innovative Programs                          | 049908-C2S1-2006<br>049908-C2S1-2007 | 84.298                    | 1,272<br>409        |                      | 1,285               |                          |
| Total State Grants for Innovative Programs                    |                                      |                           | <b>1,681</b>        |                      | <b>1,285</b>        |                          |
| Education Technology State Grants                             | 049908-TJS1-2006<br>049908-TJS1-2007 | 84.318                    | (4)<br>777          |                      | 734                 |                          |
| Total Education Technology State Grants                       |                                      |                           | <b>773</b>          |                      | <b>734</b>          |                          |
| Improving Teacher Quality State Grants                        | 049908-TRS1-2006<br>049908-TRS1-2007 | 84.367                    | 24,753<br>76,252    |                      | 5,388<br>72,255     |                          |
| Total Improving Teacher Quality State Grants                  |                                      |                           | <b>101,005</b>      |                      | <b>77,643</b>       |                          |
| Total U.S. Department of Education                            |                                      |                           | <b>706,930</b>      |                      | <b>738,027</b>      |                          |
| <b>U.S. Department of Health and Human Services</b>           |                                      |                           |                     |                      |                     |                          |
| <i>Passed Through Stark County Educational Service Center</i> |                                      |                           |                     |                      |                     |                          |
| Temporary Assistance for Needy Families (TANF)                | N/A                                  | 93.558                    | 31,150              |                      | 31,150              |                          |
| <b>Totals</b>   |                                      |                           | <b>911,808</b>      | <b>\$82,081</b>      | <b>942,905</b>      | <b>\$82,081</b>          |

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

**NORTHWEST LOCAL SCHOOL DISTRICT  
STARK COUNTY**

**NOTES TO THE FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE  
FISCAL YEAR ENDED JUNE 30, 2007**

**NOTE A – SIGNIFICANT ACCOUNTING POLICIES**

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

**NOTE B – FOOD DONATION PROGRAM**

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 non-monetary assistance (expenditures) is reported in the Schedule at the fair value of the commodities received.

**NOTE C – CHILD NUTRITION CLUSTER**

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



# Mary Taylor, CPA

Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

Northwest Local School District  
Stark County  
8614 Erie Ave. N.W.  
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, 2007, which collectively comprise the District's basic financial statements and have issued our report thereon dated February 15, 2008. 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 the Comptroller General of the United States' *Government Auditing Standards*.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our audit procedures for expressing our opinions on the financial statements, but not to opine on the effectiveness of the District's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purposes described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the District's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

We consider the following deficiencies described in the accompanying Schedule of Findings to be significant deficiencies in internal control over financial reporting: 2007-002 and 2007-003.

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the District's internal control will not prevent or detect a material financial statement misstatement.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and accordingly, would not necessarily disclose all significant deficiencies that are also material weaknesses. We believe the significant deficiencies described above are not material weaknesses.

We also noted certain matters that we reported to the District's management in a separate letter dated February 15, 2008.

### **Compliance and Other Matters**

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, 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 an opinion. The results of our tests disclosed an instance of noncompliance or other matter that we must report under *Government Auditing Standards* which is described in the accompanying Schedule of Findings as item 2007-001.

We also noted certain noncompliance or other matters not requiring inclusion in this report that we reported to the District's management in a separate letter dated February 15, 2008.

The District's response to the finding identified in our audit is described in the accompanying Schedule of Findings. We did not audit the District's response and, accordingly, we express no opinion on it.

We intend this report solely for the information and use of management, the Board of Education, federal awarding agencies and pass-through entities. We intend it for no one other than these specified parties.



**Mary Taylor, CPA**  
Auditor of State

February 15, 2008





# Mary Taylor, CPA

Auditor of State

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

Northwest Local School District  
Stark County  
8614 Erie Ave. N.W.  
Canal Fulton, Ohio 44614

To the Board of Education:

### Compliance

We have audited the compliance of 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 apply to each of its major federal programs for the year ended June 30, 2007. The summary of auditor's results section of the accompanying Schedule of Findings identifies the District's major federal programs. The District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. 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 reasonably assure whether noncompliance occurred with the types of compliance requirements referred to above that could directly and materially affect a major federal program. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing other procedures we considered necessary in the circumstances. We believe 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, the Northwest Local School District complied, in all material respects, with the requirements referred to above that apply to each of its major federal programs for the year ended June 30, 2007.

### Internal Control Over Compliance

The District's management is responsible for establishing and maintaining effective internal control over compliance with the 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 directly and materially affect a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

A *control deficiency* in internal control over compliance exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent or detect noncompliance with a federal program compliance requirement on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to administer a federal program such that there is more than a remote likelihood that the District's internal control will not prevent or detect more-than-inconsequential noncompliance with a federal program compliance requirement.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that the District's internal control will not prevent or detect material noncompliance with a federal program's compliance requirements.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

However, we noted a matter involving the internal control over federal compliance not requiring inclusion in this report, that we reported to the District's management in a separate letter dated February 15, 2008.

We intend this report solely for the information and use of management, the Board of Education, federal awarding agencies, and pass-through entities. It is not intended for anyone other than these specified parties.



**Mary Taylor, CPA**  
Auditor of State

February 15, 2008

**NORTHWEST LOCAL SCHOOL DISTRICT  
STARK COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
JUNE 30, 2007**

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

|                     |   |   |
|---------------------|---|---|
| <b>(d)(1)(i)</b>    | <b>Type of Financial Statement Opinion</b>  | Unqualified   |
| <b>(d)(1)(ii)</b>   | <b>Were there any material control weaknesses reported at the financial statement level (GAGAS)?</b>                        | No  |
| <b>(d)(1)(ii)</b>   | <b>Were there any other significant deficiencies in internal control reported at the financial statement level (GAGAS)?</b> | Yes   |
| <b>(d)(1)(iii)</b>  | <b>Was there any reported material noncompliance at the financial statement level (GAGAS)?</b>                              | Yes   |
| <b>(d)(1)(iv)</b>   | <b>Were there any material internal control weaknesses reported for major federal programs?</b>                             | No  |
| <b>(d)(1)(iv)</b>   | <b>Were there any other significant deficiencies in internal control reported for major federal programs?</b>               | No  |
| <b>(d)(1)(v)</b>    | <b>Type of Major Programs' Compliance Opinion</b>   | Unqualified   |
| <b>(d)(1)(vi)</b>   | <b>Are there any reportable findings under § .510?</b>  | No  |
| <b>(d)(1)(vii)</b>  | <b>Major Programs (list):</b>   | Title I Grants to Local Educational Agencies CFDA # 84.010 and Nutrition School Lunch Program CFDA # 10.555 |
| <b>(d)(1)(viii)</b> | <b>Dollar Threshold: Type A/B Programs</b>  | Type A: > \$300,000<br>Type B: all others   |
| <b>(d)(1)(ix)</b>   | <b>Low Risk Auditee?</b>  | Yes   |

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

**FINDING NUMBER 2007-001**

**Noncompliance Citation**

**Finding for Recovery**

**Article 31 – Teacher Contracts, section A. 3. of the negotiated agreement between the Northwest Teachers’ Association and the Northwest Local Board of Education**, states six hundred (600) hours of tutoring, on behalf of the Board, shall constitute a year of credit on the tutor salary schedule.

Pursuant to this agreement, James N. Westbrook, Proficiency Tutor, in the 2002-2003 fiscal year, received a step increase in pay. However, in fiscal year 2001-2002, he only worked 385.75 hours and not the 600 hours required to constitute a year of credit. For fiscal years subsequent to the 2001-2002 fiscal year, he did work greater than the required 600 hours. The following represents the fiscal years and corresponding overpayment of wages:

| <u>Fiscal Years</u> | <u>Overpayment Amount</u> |
|---------------------|---------------------------|
| 2002-2003           | \$181.55                  |
| 2004-2005           | 544.16                    |
| 2006-2007           | 592.04                    |
| 2007-2008           | 26.24                     |

As a result of the aforementioned errors, James N. Westbrook received a total overpayment of \$1,343.99.

A key control in the payroll process is to ensure employees are paid in accordance with approved salary schedules. To improve controls over the payroll process and to help reduce the possibility of other employees being overcompensated, we recommend the District review salary increases more closely to ensure they are made in accordance with approved salary schedules.

Under Ohio law, any public official who either authorizes an illegal expenditure of public funds or supervises the accounts of a public office from which such illegal expenditure is made is strictly liable for the amount of the expenditure. Seward v. National Surety Corp., 120 Ohio St. 47 (1929); 1980 Op. Atty Gen. No. 80-074; Ohio Rev. Code Section 9.39; State, ex. Rel. Village of Linndale v. Masten, 18 Ohio St. 3d 228 (1985). Public officials controlling public funds or property are secondarily liable for the loss incurred should such funds or property be fraudulently obtained by another, converted, misappropriated, lost or stolen. Public officials will be liable if and to the extent that recovery or restitution is not obtained from the persons who unlawfully obtained such funds or property 1980 Op. Atty Gen. No. 80-074.

In accordance with the foregoing facts, and pursuant to the ORC § 117.28, a Finding for Recovery for public money illegally expended is hereby issued against James N. Westbrook, Proficiency Tutor and Achievement Test Coordinator, his bonding company, the Indiana Insurance Company, and Danny E. Levensgood, School Treasurer, and the Ohio Farmers Insurance Company and Ohio Casualty Insurance Company, his bonding companies jointly and severally, in the total amount of \$1,343.99, in favor of the District’s General Fund for \$1,343.99. Ohio Farmers Insurance Company and Ohio Casualty Insurance Company are responsible for \$365.72 and \$978.27 of the total amount, respectively.

Danny E. Levensgood, Treasurer, shall be secondarily liable for such illegal expenditures to the extent that recovery or restitution is not obtained from James N. Westbrook, Proficiency Tutor and Achievement Test Coordinator.

**FINDING NUMBER 2007-001 (Continued)**

On October 1, 2007, James N. Westbrook agreed to have \$70.75 per pay withheld for the remaining 19 pays of 2007-08 to reimburse the District for this overpayment due to incorrect contract steps. The amount of \$70.75 will be docked each pay starting on October 5, 2007 with completion on June 13, 2008.

**Officials Response:** The Treasurer's Office notified James N. Westbrook of an overpayment of salary dating back to 2002. He agreed with the finding and a payment schedule has been established whereby Northwest Local Schools will be repaid through payroll deduction. The overpayment will be repaid in its entirety by the end of the 2007-2008 school year.

**FINDING NUMBER 2007-002**

**Significant Deficiency**

**Posting Estimated Resources and Appropriations to Accounting System**

During fiscal year 2007, estimated revenues posted to the District's computerized budgetary reports did not always agree to the District's Amended Certificate of Estimated Resources for the dates and funds indicated below:

| <u>Date</u> | <u>Fund</u>                         | <u>Amended<br/>Certificate</u> | <u>District<br/>Records</u> | <u>Variance</u> |
|-------------|-------------------------------------|--------------------------------|-----------------------------|-----------------|
| 06/30/07    | 001 - General                       | \$17,815,771                   | \$16,818,648                | \$997,123       |
| 06/30/07    | 002 - Debt Service                  | 1,637,709                      | 1,633,209                   | 4,500           |
| 06/30/07    | 018 - Public School Support         | 163,500                        | 204,000                     | (40,500)        |
| 06/30/07    | 019 - Other Grants                  | 3,500                          | 2,200                       | 1,300           |
| 06/30/07    | 300 - Athletics and Band            | 185,000                        | 178,550                     | 6,450           |
| 06/30/07    | 401 - Auxiliary Services            | 116,000                        | 112,000                     | 4,000           |
| 06/30/07    | 432 - Management Information System | 14,500                         | 9,800                       | 4,700           |
| 06/30/07    | 451 - School Net                    | 15,000                         | 14,400                      | 600             |
| 06/30/07    | 459 - Ohio Reads                    | 16,337                         | 2,000                       | 14,337          |
| 06/30/07    | 460 - Summer School                 | 10,000                         | -                           | 10,000          |
| 06/30/07    | 494 - Poverty Aid                   | 16,396                         | 9,396                       | 7,000           |
| 06/30/07    | 499 - Other State Grants            | 62,855                         | 46,255                      | 16,600          |
| 06/30/07    | 516 - Title VI-B                    | 549,883                        | 554,646                     | (4,763)         |
| 06/30/07    | 003 - Permanent Improvement         | 255,633                        | 224,591                     | 31,042          |
| 06/30/07    | 004 - Building                      | 1,047,475                      | 40,000                      | 1,007,475       |
| 06/30/07    | 006 - Food Service                  | 668,287                        | 620,500                     | 47,787          |

**FINDING NUMBER 2007-002 (Continued)**

| <u>Date</u> | <u>Fund</u>                         | <u>Amended Certificate</u> | <u>District Records</u> | <u>Variance</u> |
|-------------|-------------------------------------|----------------------------|-------------------------|-----------------|
| 04/30/07    | 001 - General                       | \$17,520,558               | \$16,818,648            | \$701,910       |
| 04/30/07    | 002 - Debt Service                  | 1,637,709                  | 1,633,209               | 4,500           |
| 04/30/07    | 019 - Other Grants                  | 3,500                      | -                       | 3,500           |
| 04/30/07    | 300 - Athletics and Band            | 185,000                    | -                       | 185,000         |
| 04/30/07    | 401 - Auxiliary Services            | 116,000                    | -                       | 116,000         |
| 04/30/07    | 432 - Management Information System | 14,500                     | -                       | 14,500          |
| 04/30/07    | 451 - School Net                    | 5,000                      | -                       | 5,000           |
| 04/30/07    | 452 - School Net                    | 15,000                     | -                       | 15,000          |
| 04/30/07    | 459 - Ohio Reads                    | 2,000                      | -                       | 2,000           |
| 04/30/07    | 460 - Summer School                 | 10,000                     | -                       | 10,000          |
| 04/30/07    | 494 - Poverty Aid                   | 15,000                     | -                       | 15,000          |
| 04/30/07    | 499 - Other State Grants            | 21,000                     | 23,175                  | (2,175)         |
| 04/30/07    | 516 - Title VI-B                    | 504,026                    | -                       | 504,026         |
| 04/30/07    | 572 - Title I                       | 169,831                    | -                       | 169,831         |
| 04/30/07    | 573 - Title VI                      | 3,633                      | -                       | 3,633           |
| 04/30/07    | 584 - Drug Free School              | 7,173                      | -                       | 7,173           |
| 04/30/07    | 590 - Title VI-R                    | 76,086                     | -                       | 76,086          |
| 04/30/07    | 599 - Other Federal Grants          | 1,760                      | -                       | 1,760           |
| 04/30/07    | 003 - Permanent Improvement         | 255,633                    | 224,591                 | 31,042          |
| 04/30/07    | 004 - Building                      | 1,047,475                  | 40,000                  | 1,007,475       |

At April 30, 2007, appropriations posted to the District's computerized budgetary reports did not always agree to the District's Annual Appropriation Measure plus appropriation amendments for the fund-object codes and fund-types indicated below:

| <u>Fund / Fund-Type</u> | <u>Object</u>                | <u>Total Available for Expenditure</u> | <u>Per The District Records</u> | <u>Variance</u> |
|-------------------------|------------------------------|--|---------------------------------|-----------------|
| 001 - General           | Materials and Supplies (500) | \$ 698,796                             | \$ 696,296                      | \$ 2,500        |
| 001 - General           | Capital Outlay (600)         | 126,842                                | 129,342                         | (2,500)         |
| Special Revenue Funds   | Not Applicable               | 1,464,760                              | 1,349,627                       | 115,133         |

Since budgeted amounts approved by the Board have not been entered properly in the District's computerized budgetary reports, when the Board reviews these reports they may be making inaccurate financial decisions based on inaccurate budgeted amounts. In addition, there is an increased risk these inaccurate amounts may be erroneously entered in the District's budgetary financial statements which could potentially misstate these financial statements.

The District should periodically review its computerized budgetary reports to ensure estimated revenue and appropriation amounts are posted accurately and timely. The appropriation variances were corrected by the fiscal year end.

A similar comment was made in the management letter of the 2006 financial statements.

**Officials' Response:** The Treasurer will post the initial estimated revenues to the computerized budgetary system at the beginning of the fiscal year and will subsequently post any and all adjustments or additions promptly as they occur during the fiscal year.

**FINDING NUMBER 2007-003**

**Significant Deficiency**

**Capital Assets**

During testing of capital assets the following deficiencies were noted:

- The acquisition cost \$16,717,418, current year depreciation expense \$383,121, and accumulated depreciation \$383,121 of the District's new high school building were classified as Equipment & Furniture in the Equipment Inventory Subsystem (EIS). As a result, the District's EIS system reports did not agree to the current year capital asset activity footnote. Also, donated visitor bleachers for the football stadium and Architectural/Engineering expenses for the new high school were erroneously recorded as prior period adjustments even though they were received or expended in the current year audit period. As a result, the current year capital asset activity footnote was misstated.
- The construction of the sports field's water well and the waterlines connecting the new high school to the City's water supply were not recorded as capital asset additions. As a result, the current year capital assets balance was understated. Also, the District did not post a fiscal year 2006 audit adjustment, increasing its Buildings and Improvements acquisition cost by \$218,822, to the EIS system. As a result, the District's EIS system reports were understated and did not agree to the prior year capital asset activity footnote.

Although the financial statements have been adjusted to reflect the correct balances if these control weaknesses continue there is an increased risk of future errors which may not be timely detected which could materially misstate the financial statements.

In order to correct these deficiencies the District should:

- Establish procedures to ensure all asset additions, whether purchased or donated, are recorded in the EIS system. Additionally, The Treasurer should review the District's capital asset additions to ensure they are recorded in the proper asset class and period.
- Review the prior year's ending capital asset balances to verify all audit adjustments and reclassifications have been entered into the EIS system, and the EIS system reconciles to the capital asset balances reported in the basic financial statements and capital asset activity footnote.

**Officials' Response:** The procedure for reviewing additions to the EIS system has been revised to include the review of amounts posted to the proper asset class and a check of the posting of capital asset audit adjustments. This process will be completed by the Treasurer with assistance from the Accounting Clerk responsible for the EIS system. A written check list will be prepared and reviewed for accuracy and completeness before the annual closing is concluded.

|  |
|--|
| <b>3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS</b> |
|--|

None







**Mary Taylor, CPA**  
Auditor of State

**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  
MARCH 27, 2008**