



**Auditor of State  
Betty Montgomery**



**NORTHWESTERN LOCAL SCHOOL DISTRICT  
CLARK COUNTY**

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**Auditor of State  
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT**

Northwestern Local School District  
Clark County  
5610 Troy Road  
Springfield, Ohio 45502

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District, as of June 30, 2004, and the changes in its financial position and the respective 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 December 6, 2004, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

We conducted our audit to form opinions on the financial statements that collectively comprise the District's basic financial statements. The federal awards expenditure 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 expenditure 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 "Betty Montgomery". The signature is written in a cursive, flowing style.

**Betty Montgomery**  
Auditor of State

December 6, 2004

**NORTHWESTERN LOCAL SCHOOL DISTRICT  
CLARK COUNTY**

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

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

**Financial Highlights**

Key financial highlights for 2004 are as follows:

- Assets, excluding capital assets net of related debt, exceeded total liabilities at the close of the most recent fiscal year by \$2.33 million. Of this amount, \$1.65 million is unrestricted for the School District's discretionary use.
- General revenues accounted for \$12.88 million in revenue or 87.56 percent of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$1.83 million or 12.44 percent of total revenues of \$14.71 million.
- Assets, excluding capital assets, increased by \$.27 million including a decrease in cash and cash equivalents of \$.18 million and an increase taxes receivable of \$.39.
- The School District had \$14.84 million in expenses related to governmental activities; only \$1.83 million of these expenses were offset by program specific charges for services, grants or contributions. General revenues of \$12.88 million, along with cash balances, were adequate to provide for these programs.
- The general fund had \$13.19 million in revenues and \$13.20 million in expenditures. The general fund's balance at the close of the current year was 17.28 percent of the current year's expenditures.

**Overview of the Financial Statements**

The discussion and analysis is intended to serve as an introduction to the School District's basic financial statements. The School District's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

**Government-wide financial statements.** The *government-wide financial statements* are designed to provide readers with a broad overview of the School District's finances, in a manner similar to private-sector business.

The *statement of net assets* presents information on all the School District's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases and decreases in net assets may serve as a useful indicator of whether the financial position of the School District is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g. uncollected taxes and earned but unused vacation leave.)

Both of the government-wide financial statements distinguish functions of the School District that are principally supported by taxes and intergovernmental revenues (*governmental activities*). The government-wide financial statements can be found on pages 10 - 11 of this report.

**NORTHWESTERN LOCAL SCHOOL DISTRICT  
CLARK COUNTY**

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

**Fund financial statements.** A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The School District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All the funds of the School District can be divided into two categories: governmental funds and fiduciary funds.

**Governmental funds.** Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the School District's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between the governmental activities statement of net assets and statement of activities.

The School District maintains nineteen individual governmental funds. Information is presented separately in the governmental fund balance sheet and the statement of fund revenues, expenditures and changes in fund balance for the general fund which is considered a major fund. Data from the other eighteen governmental funds are combined into a single, aggregate presentation.

The School District adopts an annual appropriation budget for all of its governmental funds. Budgetary comparison statements have been provided for the general fund to demonstrate compliance with this budget. The basic governmental fund financial statements can be found on pages 12 – 16 of this report.

**Fiduciary Funds.** Fiduciary funds are used to account for resources held for the benefit of parties outside the School District. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the School District's own programs. The accounting used for fiduciary funds is much like that used for governmental funds. The basic fiduciary fund financial statement can be found on page 17 of this report.

**Notes to the Financial Statement.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on starts on page 19 of this report.



**NORTHWESTERN LOCAL SCHOOL DISTRICT  
CLARK COUNTY**

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

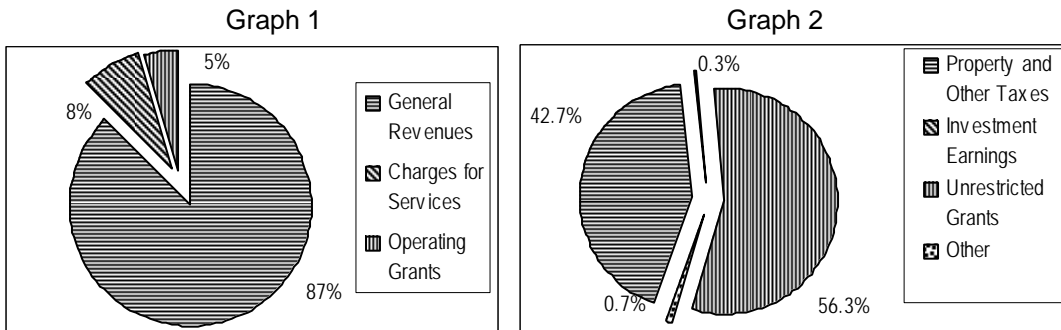
**Government-Wide Financial Analysis**

Recall that the Statement of Net Assets provides the perspective of the School District as a whole. Table 1 provides a comparison of the School District's net assets for 2003 to 2004.

**Table 1  
Net Assets  
(in Millions)**

	<u>2004</u>	<u>2003</u>	<u>Change</u>
<b>Assets</b>			
Current and Other Assets	\$9.44	\$9.17	\$0.27
Capital Assets	7.47	7.41	0.06
<i>Total Assets</i>	<u>16.91</u>	<u>16.58</u>	<u>0.33</u>
<b>Liabilities</b>			
Long-term Liabilities	(1.88)	(1.66)	(0.22)
Other Liabilities	(6.37)	(5.96)	(.41)
<i>Total Liabilities</i>	<u>(8.25)</u>	<u>(7.62)</u>	<u>(.63)</u>
<b>Net Assets</b>			
Invested in Capital Assets	6.33	7.41	(1.08)
Restricted for:			
Grants	0.04	0.05	0.01
State Mandates	0.05	0.04	0.01
Capital Improvements	0.59	0.71	(0.12)
Unrestricted	1.65	0.74	0.91
<i>Total Net Assets</i>	<u>\$8.66</u>	<u>\$8.95</u>	<u>(\$0.29)</u>

Graphs 1 and 2 break down the School District's Fiscal Year 2004 revenue into percentages by type of revenue.



**NORTHWESTERN LOCAL SCHOOL DISTRICT  
CLARK COUNTY**

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

Table 2 shows the revenue for the School District as a whole during fiscal years 2003 and 2004.

**Table 2  
Revenues  
(in Millions)**

	<b>2004 Total Revenue</b>	<b>2003 Total Revenue</b>	<b>Change</b>
<b>Revenues</b>			
<i>Program Revenues</i>			
Charges for Services	\$1.15	\$0.68	\$.47
Operating Grants/Contributions	0.68	0.51	.17
<i>General Revenues</i>			
Property and Other Taxes	5.50	5.84	(.34)
Unrestricted Grants	7.25	7.02	.23
Investment Earnings	0.04	0.08	(.04)
Other	0.09	0.15	(.06)
<b>Total Revenues</b>	<b>\$14.71</b>	<b>\$14.28</b>	<b>\$.43</b>

Table 3 shows total program expenses for fiscal years 2003 and 2004.

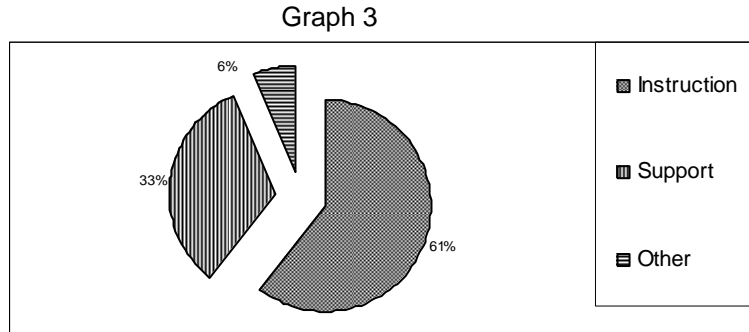
**Table 3  
Total Program Expenses  
(in millions for Total Program Expense)**

	<b>2004 Program Expense</b>	<b>2003 Program Expense</b>	<b>Change</b>
<b>Program Expenses</b>			
<i>Instruction</i>			
Regular	\$6.79	\$6.09	\$.70
Special	1.52	1.52	.00
Other	0.68	0.26	.42
<i>Support Services:</i>			
Pupil/Staff	1.31	1.22	.09
Administration	1.53	1.00	.53
Maintenance	1.11	1.09	.02
Transportation	0.93	0.87	.06
Other	0.03	0.45	(.42)
Food Services/Latchkey	0.50	0.49	.01
Extracurricular Activities	0.38	0.37	.01
Interest and Fiscal Charges	0.06	0.06	.00
<b>Total Expenses</b>	<b>\$14.84</b>	<b>\$13.42</b>	<b>\$1.42</b>

**NORTHWESTERN LOCAL SCHOOL DISTRICT  
CLARK COUNTY**

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

Graph 3 shows a breakdown of Fiscal Year 2004 expenditures by percentages in the major categories.



**Capital Assets**

At the end of the year, the School District had \$7,467,265 invested in land, buildings, equipment, and vehicles less accumulated depreciation. Table 4 shows the breakdown of the individual classes for capital assets:

**Table 4  
Capital Assets**

<u>Class</u>	<u>Historical Cost</u>	<u>Accumulated Depreciation</u>	<u>Book Value</u>
Land and Improvements	\$799,276	\$22,084	\$777,192
Buildings and Improvements	10,828,031	5,330,891	5,497,140
Furniture and Equipment	2,312,315	1,473,693	838,622
Vehicles	1,338,722	984,411	354,311
<b>Totals</b>	<b>\$15,278,344</b>	<b>\$7,811,079</b>	<b>\$7,467,265</b>

**The Major Fund**

The School District's major fund starts on page 12. This fund is accounted for using the modified accrual basis of accounting, focusing on the near term financial resources of the District. All governmental funds had total revenues of \$14.71 million and expenditures of \$14.85 million. The net change in fund balance for the year was most significant in the other governmental funds, a decrease of \$.12 million.

The general fund recognized \$1.44 million in current liabilities for fiscal year 2004. Accrued salaries and benefits accounted for 76.70% of those liabilities. Taxes Receivable accounted for 99.04% of the \$5.76 million receivables in the general fund.

**NORTHWESTERN LOCAL SCHOOL DISTRICT  
CLARK COUNTY**

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

**General Fund Budgetary**

Table 5 depicts the change from the original to the final general fund revenue budget for the fiscal year ended June 30, 2004.

**Table 5  
Original Budget versus Final Budget for General Fund Revenues**

	<b>Budget</b>	
	<b>Original</b>	<b>Final</b>
<u>Revenues</u>		
Property and Other Local Taxes	\$5,095,931	\$5,294,648
Intergovernmental	6,957,670	7,228,986
Other	605,756	629,378
Total Revenues	<u>\$12,659,357</u>	<u>\$13,153,012</u>

The original revenue estimates come from the Tax Budget completed in January 2003. The County Auditor completes the tax estimates. The final amounts are higher mainly because the rates of collection for the two emergency levies were not rolled back as much as anticipated.

State revenue makes up the majority of the intergovernmental revenue. At the time the tax budget was completed, a lower student count was estimated by the School District. In the past open enrollment was posted as net revenue for the number of incoming students less Northwestern students attending other districts. In fiscal year 2004, the District was required to post this as gross revenue and expenditures. This change inflated actual revenue over what was expected. The State of Ohio also cut funding in the spring of 2003. This was an unexpected loss of over \$93,000 to the District. Although this is not reflected in the current year revenue, it does have a major impact on the District's cash balance.

Table 6 depicts the change from the original to the final general fund expenditure budget for the fiscal year ended June 30, 2004.

**Table 6  
Original Budget versus Final Budget for General Fund Expenditures**

	<b>Budget</b>	
	<b>Original</b>	<b>Final</b>
<b>Expenditures</b>		
Instruction	\$8,446,813	\$8,303,665
Support Services	4,994,816	4,910,169
Other	446,743	439,171
Total Expenditures	<u>\$13,888,372</u>	<u>\$13,653,005</u>

The original budget comes for the Tax Budget filed in January of 2003. Traditionally the tax budget expenditures include all possible needs for the future year. A line in the budget is included for contingencies in the original budget. Although this money is not spent, it still shows in the original budget.

**NORTHWESTERN LOCAL SCHOOL DISTRICT  
CLARK COUNTY**

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

**Debt Administration**

The School District has no long term general obligation debt. The School District does have a capital lease for \$1,423,996 (principal and interest) for an addition to Northwestern Elementary. For further information on the School District's obligation refer to note 14 of the financial statements.

**For the Future**

At this time, the Northwestern Local School District is financially stable. The district is proud of its community support of the public schools. As the preceding information shows, the School District will formulate plans to renew the emergency levies in calendar year 2005. Additional millage will be needed in the future. The amount needed will depend upon future state funding. In November, 2003 a bond issue to replace the Middle School and an addition to the High School failed. At this point the Board of Education has not determined when the bond issue will be placed on the ballot again.

Externally, the State of Ohio was found by the Ohio Supreme Court in March 1997 to be operating an unconstitutional system, one that was neither "adequate" nor "equitable." Since 1997, the State has directed its tax revenue growth toward School Districts with little property tax wealth. The legislators and government officials continue to negotiate the plan for improvement of the financing of public schools in the State of Ohio.

In conclusion, the Northwestern Local School District has committed itself to financial excellence for many years. The last time the School District requested addition operating millage was over eleven years ago. The School District's system of financial planning, budgeting, and internal financial controls are well regarded. The School District plans to continue its sound fiscal management to meet the challenges of the future.

**Contacting the School District's Financial Management**

This financial report is designed to provide our citizens, taxpayers, and investors and creditors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have questions about this report or need additional financial information contact David Bollheimer, Office of the Treasurer, Northwestern Local Schools, 5610 Troy Road, Springfield, OH 45502.

**NORTHWESTERN LOCAL SCHOOL DISTRICT  
CLARK COUNTY**

**STATEMENT OF NET ASSETS  
JUNE 30, 2004**

	<b>Primary Government</b>
	<b>Governmental Activities</b>
<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	\$3,395,339
Receivables:	
Property and Other Taxes	5,861,210
Accounts	8,692
Accrued Interest	2,570
Intergovernmental	78,712
Materials and Supplies Inventory	52,509
Prepaid Items	3,321
Restricted Cash and Cash Equivalents	39,318
Capital Assets (net of accumulated depreciation):	7,467,265
Total Assets	16,908,936
<b>Liabilities</b>	
Payables:	
Accounts	52,752
Intergovernmental	272,238
Salaries and Employee Benefits	1,154,642
Deferred Revenue	4,887,537
Noncurrent Liabilities:	
Due within one year	251,429
Due in more than one year	1,630,489
Total Liabilities	8,249,087
<b>Net Assets</b>	
Invested in capital assets, net of related debt	6,332,265
Restricted for:	
Perpetual Care	3,940
Grants	45,906
State Mandates	39,318
Capital Improvements	590,748
Unrestricted	1,647,672
Total Net Assets	\$8,659,849

*See accompanying notes to the basic financial statements.*

**NORTHWESTERN LOCAL SCHOOL DISTRICT  
CLARK COUNTY**

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

<u>Function/Programs</u>	<u>Program Revenues</u>		<u>Net (Expense) Revenue and Changes in Net Assets</u>
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>
			<u>Governmental Activities</u>
Governmental Activities:			
Instruction:			
Regular	\$6,794,697	\$636,415	\$65,221
Special	1,502,393		453,404
Other	684,037	960	
Support Services:			
Pupils	527,069		22,631
Instructional Staff	786,043		28,865
Board of Education	111,027		
Administration	1,074,791		
Fiscal	357,794		
Operation and Maintenance of Plant	1,105,744		
Pupil Transportation	934,265		
Central	16,778		3,419
Operation of Non-Instructional Services	12,878		
Food Service	470,935	383,526	107,087
Latchkey	30,783	39,270	
Extracurricular Activities	375,018	89,004	
Interest and Fiscal Charges	56,608		
Total Primary Government	<u>\$14,840,860</u>	<u>\$1,149,175</u>	<u>\$680,627</u>

General Revenues:	
Property Taxes	5,502,807
Grants and Contributions not restricted to specific programs	7,248,460
Unrestricted investment earnings	40,571
Miscellaneous	89,582
Total General Revenues	<u>12,881,420</u>
Loss on Disposal of Assets	<u>(125,304)</u>
Changes in Net Assets	<u>(254,942)</u>
Net Assets-Beginning	8,914,791
Net Assets-Ending	<u>\$8,659,849</u>

See accompanying notes to the basic financial statements.

**NORTHWESTERN LOCAL SCHOOL DISTRICT  
CLARK COUNTY**

**BALANCE SHEET - GOVERNMENTAL FUNDS  
JUNE 30, 2004**

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Assets and Other Debits</b>			
<b>Assets</b>			
Equity in Pooled Cash and Cash Equivalents	\$2,634,586	\$760,753	\$3,395,339
Receivables:			
Property and Other Taxes	5,701,852	159,358	5,861,210
Accounts	6,744	1,948	8,692
Interfund	43,598		43,598
Accrued Interest	2,570		2,570
Intergovernmental	2,185	76,527	78,712
Prepaid Items	3,321		3,321
Materials and Supplies Inventory	48,248	4,261	52,509
Restricted Assets:			
Cash and Cash Equivalents	39,318		39,318
	<u>39,318</u>		<u>39,318</u>
Total Assets	<u>\$8,482,422</u>	<u>\$1,002,847</u>	<u>\$9,485,269</u>
<b>Liabilities and Fund Balances</b>			
<b>Liabilities</b>			
Payables:			
Accounts	\$48,569	\$4,183	\$52,752
Contracts			
Due to Local Governments	253,466	18,772	272,238
Salaries and Employee Benefits	1,100,752	53,890	1,154,642
Interfund		43,598	43,598
Matured Leave Payable	32,442		32,442
Deferred Revenue	4,766,078	141,305	4,907,383
	<u>4,766,078</u>	<u>141,305</u>	<u>4,907,383</u>
Total Liabilities	<u>6,201,307</u>	<u>261,748</u>	<u>6,463,055</u>
<b>Fund Balances:</b>			
Designated for:			
Budget Stabilization	162,113		162,113
Reserved for:			
Encumbrances	96,488	74,305	170,793
Inventory	48,248		48,248
Contributions		3,940	3,940
Property Taxes	402,246	15,080	417,326
Budget Stabilization	39,318		39,318
Unreserved, reported in:			
General	1,532,702		1,532,702
Special Revenue		117,377	117,377
Capital Projects		529,794	529,794
Permanent Fund		603	603
	<u>1,532,702</u>	<u>603</u>	<u>1,532,702</u>
Total Fund Balances	<u>2,281,115</u>	<u>741,099</u>	<u>3,022,214</u>
Total Liabilities and Fund Balances	<u>\$8,482,422</u>	<u>\$1,002,847</u>	<u>\$9,485,269</u>

See accompanying notes to the basic financial statements.



**NORTHWESTERN LOCAL SCHOOL DISTRICT  
CLARK COUNTY**

**RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO  
NET ASSET OF GOVERNMENTAL ACTIVITIES**

**Total Governmental Fund Balances** \$3,022,214

**Amounts reported for governmental activities in  
the statement of net assets are different because:**

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. 7,467,265

Some of the School District's revenues will be collected after fiscal year-end, but are not available soon enough to pay for the current period's expenditures and therefore are deferred in the funds. 19,846

Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.. (1,849,476)

**Net Assets of Governmental Activities** \$8,659,849

*See accompanying notes to the basic financial statements.*

**NORTHWESTERN LOCAL SCHOOL DISTRICT  
CLARK COUNTY**

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

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Revenues:</b>			
Property and Other Taxes	\$5,350,835	\$151,970	\$5,502,805
Intergovernmental	7,230,409	698,533	7,928,942
Charges for Services		387,840	387,840
Tuition and Fees	535,166	53,783	588,949
Interest	40,478	93	40,571
Rent	4,465		4,465
Gifts and Donations	20,000	500	20,500
Extracurricular Activities		173,146	173,146
Miscellaneous	9,866	52,897	62,763
	<hr/>	<hr/>	<hr/>
Total Revenues	13,191,219	1,518,762	14,709,981
<b>Expenditures:</b>			
Current:			
Instruction:			
Regular	6,311,295	293,900	6,605,195
Special	1,099,865	368,220	1,468,085
Adult Education		935	935
Other	683,102		683,102
Support Services:			
Pupils	508,032	10,640	518,672
Instructional Staff	724,472	47,560	772,032
Board of Education	111,027		111,027
Administration	1,052,982	34	1,053,016
Fiscal	346,936	2,961	349,897
Operation and Maintenance of Plant	1,029,928	137,418	1,167,346
Pupil Transportation	889,510		889,510
Central	15,128	2,314	17,442
Operation of Non-Instructional Services		523,233	523,233
Extracurricular Activities	277,311	97,014	374,325
Capital Outlay	8,250	157,917	166,167
Debt Service:			
Principal Retirement	90,000		90,000
Interest and Fiscal Charges	56,608		56,608
	<hr/>	<hr/>	<hr/>
Total Expenditures	13,204,446	1,642,146	14,846,592
Deficiency of Revenues			
Under Expenditures	(13,227)	(123,384)	(136,611)
<b>Other Financing Sources (Uses):</b>			
Sale of Capital Assets	506		506
Transfers - In		528	528
Transfers - Out	(528)		(528)
	<hr/>	<hr/>	<hr/>
Total Other Financing Sources (Uses)	(22)	528	506
Net Change in Fund Balances	(13,249)	(122,856)	(136,105)
Fund Balances - beginning	2,283,694	863,955	3,147,649
Increase in Inventory	10,670		10,670
Fund Balances - ending	<hr/> <u>\$2,281,115</u>	<hr/> <u>\$741,099</u>	<hr/> <u>\$3,022,214</u>

See accompanying notes to the basic financial statements.

**NORTHWESTERN LOCAL SCHOOL DISTRICT  
CLARK COUNTY**

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE  
STATEMENT OF ACTIVITIES**

<b>Net Change in Governmental Fund Balances</b>	(\$136,105)
<b>Amounts reported in governmental activities in the statement of activities are different because:</b>	
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 and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	62,003
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	11,911
Repayment of long-term obligations is reported as an expenditure in governmental funds, the the repayment reduces long-term liabilities in the statement of net assets. In the current year, this amount is:	90,000
Some items reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures/revenues in governmental funds.	<u>(282,751)</u>
<b>Change in net assets of governmental activities</b>	<u><u>(\$254,942)</u></u>

*See accompanying notes to the basic financial statements.*

**NORTHWESTERN LOCAL SCHOOL DISTRICT  
CLARK COUNTY**

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

	<b>General Fund</b>			<b>Variance with Final Budget Positive (Negative)</b>
	<b>Budgeted Amounts</b>		<b>Actual</b>	
	<b>Original</b>	<b>Final</b>		
<b>Revenues:</b>				
Property and Other Local Taxes	\$5,095,931	\$5,294,648	\$5,294,648	
Intergovernmental	6,957,670	7,228,986	7,228,224	(\$762)
Tuition and Fees	515,066	535,151	535,151	
Interest	57,648	59,896	59,896	
Rent	4,297	4,465	4,465	
Gifts and Donations	19,249	20,000	20,000	
Miscellaneous	9,496	9,866	9,866	
<b>Total Revenues</b>	<b>12,659,357</b>	<b>13,153,012</b>	<b>13,152,250</b>	<b>(762)</b>
<b>Expenditures:</b>				
Current:				
Instruction:				
Regular	6,284,244	6,177,745	6,290,053	(112,308)
Special	1,553,283	1,526,960	1,112,469	414,491
Other	609,286	598,960	683,102	(84,142)
Support Services:				
Pupils	526,951	518,021	502,277	15,744
Instructional Staff	809,160	795,447	719,663	75,784
Board of Education	142,272	139,861	142,399	(2,538)
Administration	1,099,300	1,080,670	1,047,956	32,714
Fiscal	363,969	357,801	344,899	12,902
Operation and Maintenance of Plant	1,111,155	1,092,324	1,034,825	57,499
Pupil Transportation	925,581	909,895	909,070	825
Central	16,428	16,150	15,128	1,022
Extracurricular Activities	289,578	284,671	276,782	7,889
Capital Outlay	157,165	154,500	155,208	(708)
<b>Total Expenditures</b>	<b>13,888,372</b>	<b>13,653,005</b>	<b>13,233,831</b>	<b>419,174</b>
Excess of Revenues Over (Under) Expenditures	(1,229,015)	(499,993)	(81,581)	418,412
<b>Other Financing Sources (Uses):</b>				
Proceeds from Sale of Capital Assets		506	506	
Refund of Prior Year Expenditures	8,034	8,347	8,347	
Advances Out	(10,172)	(10,000)	(43,598)	(33,598)
Transfers Out	(101,456)	(99,737)	(528)	99,209
Other Financing Uses		(343,132)		343,132
<b>Total Other Financing Sources (Uses)</b>	<b>(103,594)</b>	<b>(444,016)</b>	<b>(35,273)</b>	<b>408,743</b>
<b>Net Change in Fund Balance</b>	<b>(1,332,609)</b>	<b>(944,009)</b>	<b>(116,854)</b>	<b>827,155</b>
Fund Balances at Beginning of Year	2,583,335	2,583,335	2,583,335	
Prior Year Encumbrances Appropriated	104,793	104,793	104,793	
<b>Fund Balance at End of Year</b>	<b>\$1,355,519</b>	<b>\$1,744,119</b>	<b>\$2,571,274</b>	<b>\$827,155</b>

See accompanying notes to the basic financial statements.

**NORTHWESTERN LOCAL SCHOOL DISTRICT  
CLARK COUNTY**

**STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES -  
FIDUCIARY FUNDS  
JUNE 30, 2004**

	<u>Agency</u>
<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	<u>\$27,725</u>
<b>Liabilities</b>	
Due to Students	<u>27,725</u>
Total Liabilities	<u>\$27,725</u>

*See accompanying notes to the basic financial statements.*

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**NORTHWESTERN LOCAL SCHOOL DISTRICT  
CLARK COUNTY**

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

**1. DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY**

Northwestern Local School District (the "School District") is organized under Article VI, Sections 2 and 3 of the Constitution of the State of Ohio. The School District operates under a locally elected Board form of government consisting of five members elected at-large for staggered four-year terms. The School District provides educational services as authorized by State statute and/or federal guidelines.

The School District is located in Clark County and is the 295th largest in the State of Ohio (among 611 school districts) in terms of enrollment. It is staffed by 77 non-certificated employees, 116 certificated full-time teaching personnel and 12 administrative employees who provide services to 1,976 students and other community members.

The reporting entity is comprised of the primary government, component units, and other organizations that are included to insure that the financial statements of the School District are not misleading. The primary government consists of all funds, departments, boards, and agencies that are not legally separate from the School District. For Northwestern Local School District, this includes general operations, food service, preschool and student related activities of the School District.

Component units are legally separate organizations for which the School District is financially accountable. The School District is financially accountable for an organization if the School District appoints a voting majority of the organization's governing board and (1) the School District is able to significantly influence the programs or services performed or provided by the organization; or (2) the School District is legally entitled to or can otherwise access the organization's resources; the School District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the School District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the School District in that the School District approves the budget, the issuance of debt, or the levying of taxes. The School District has no component units.

The School District is associated with four jointly governed organizations and one insurance purchasing pool. These organizations are discussed in Note 16 to the basic financial statements. These organizations are:

Jointly Governed Organizations:

Miami Valley Educational Computer Association  
Southwestern Ohio Educational Purchasing Council  
Southwestern Ohio Instructional Technology Association  
Clark County Family and Children First Council

Insurance Purchasing Pool:

Southwestern Ohio Educational Purchasing Council Workers'  
Compensation Group Rating Plan

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the Northwestern Local School District have been prepared in conformity with generally accepted accounting principles (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 most significant of the School District's accounting policies are described below.

**NORTHWESTERN LOCAL SCHOOL DISTRICT  
CLARK COUNTY**

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

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Government-wide and Fund Financial Statements**

The government-wide financial statements (ie., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government. The effect of interfund activity has been removed from these statements. *Governmental activities*, normally are supported by taxes and intergovernmental revenues.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program Revenues* include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

**B. Measurement focus, basis of accounting, and financial statement presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within sixty days of the end of the fiscal period. Expenditures generally are recorded when a liability is expected to be liquidated with expendable, available resources. However, debt service expenditures, as well as compensated absences, are recorded only when payment is due.

Property taxes, grants and entitlements, tuition, fees and interest associated with the current fiscal period are all considered to susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered measurable and available only when cash is received by the District.

**1. 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. The District employs the use of two categories of funds: governmental and fiduciary.



**NORTHWESTERN LOCAL SCHOOL DISTRICT  
CLARK COUNTY**

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

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**2. Governmental Funds**

Governmental funds are those through which most governmental functions typically are financed. Governmental funds reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purpose 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 District reports the following major governmental fund:

The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

**3. Fiduciary Fund**

*Fiduciary fund* reporting focuses on net assets and changes in net assets. The District maintains only one fiduciary fund, an agency fund known as the Student Activities Fund. The fund was established to account for revenues generated by student managed activities. The District's agency fund is custodial in nature (assets equal liabilities) and does not involve the measurement of results of operations.

When both restricted and unrestricted resources are available for use, it is the District's policy to use the restricted resources first, then unrestricted resources as they are needed.

**C. Budgetary Process**

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 primary level of budgetary control is at the fund level. Any budgetary modifications at this level may only be made by resolution of the Board of Education.

**1. Tax Budget:**

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

**NORTHWESTERN LOCAL SCHOOL DISTRICT  
CLARK COUNTY**

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

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**2. Estimated Resources:**

Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the County Budget Commission and receives the Commission's certificate of estimated resources which states the projected revenue of each fund. Prior to June 30, the School 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 School District Treasurer. The amounts reported in the budgetary statement reflect the amounts in the final amended certificate that was in effect at the time the final appropriations were passed by the Board of Education. Prior to year-end, the School District requested and received an amended certificate of estimated resources that reflected actual revenue for the fiscal year.

**3. 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 legally enacted by the Board of Education. The Board of Education determines the District's legal level of control through passage of the appropriation resolution, which was at the fund level. Prior to the passage of the annual appropriation measure, the Board may pass a temporary appropriation measure to meet the ordinary expenses of the School District. The appropriation resolution, by fund, must be within the estimated resources as certified by the County Budget Commission. Some revisions that alter the total of any fund appropriation, or alter total function appropriations within a fund 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, nine supplemental appropriations were legally enacted; however, none of them were significant. The budget figures that appear in the statement of budgetary comparisons represent the final appropriation amounts, including all supplemental appropriations. The treasurer has been given the authority to further allocate appropriations to objects within each fund and function. Formal budgetary integration is employed as a management control device during the year for all funds other than agency funds, consistent with statutory provisions.

**4. 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.

**NORTHWESTERN LOCAL SCHOOL DISTRICT  
CLARK COUNTY**

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

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**D. Cash and Cash Equivalents**

To improve cash management, all cash received by the School District is pooled in a central bank account. Monies for all funds are maintained in this account or temporarily used to purchase short-term investments. Individual fund integrity is maintained through School District records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" on the statement of net assets and governmental fund balance sheet.

During fiscal year 2004, the School District's investments were limited to funds invested in the State Treasury Assets Reserve of Ohio (STAR Ohio), Federal Home Loan Bank Notes, Federal National Mortgage Association Notes, Federal Home Loan Mortgage Corporation Discount Notes, Federal National Mortgage Association Discount Notes, and First America Treasury Market Fund.

STAR Ohio is an investment pool managed by the State Treasurer's Office that 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 that is the price the investment could be sold for on June 30, 2004.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2004 amounted to \$40,478, which includes \$8,764 assigned from other funds. The Food Service special revenue fund received \$93 in interest.

**E. Inventory**

Inventories of all funds are stated at cost. Cost is determined on a first-in, first-out basis. Inventory consists of expendable supplies held for consumption. The cost of inventory items is recorded as expenditure when purchased. Reported material and supplies inventory is equally offset by a fund balance reserve on the governmental fund balance sheet which indicates that it does not constitute available expendable resources even though it is a component of net current assets.

**F. Prepaid Items**

Payments made to vendors for services that will benefit periods beyond June 30, 2004, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

**G. Capital Assets and Depreciation**

Capital assets, which include property, plant, equipment, and vehicles are reported on the government-wide 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 School District maintains a capitalization threshold of \$500. The School District does not have 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 capitalized. Interest incurred during the construction of capital assets is also not capitalized.

**NORTHWESTERN LOCAL SCHOOL DISTRICT  
CLARK COUNTY**

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

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Depreciation of furniture and equipment is computed using the straight-line method over an estimated useful life of ten years, with building improvements being depreciated over twenty years and buildings over fifty years. Improvements to fund capital assets are depreciated over the remaining useful lives of the related assets.

**H. Compensated Absences**

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the School District will compensate the employees for the benefits through paid time off or some other means. The School District records a liability for accumulated unused vacation time when earned for all employees with more than one year of service.

Sick leave benefits are accrued as a liability using the termination method. An accrual for earned sick leave is made to the extent that it is probable that benefits will result in termination payments. The liability is an estimate based on the School District's past experience of making termination payments.

For governmental funds, the current portion of unpaid compensated absences is the amount normally due for payment during the current year. Matured leave payable in the fund financial statements represents the entire current portion. These amounts are reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements. The entire liability is reported on the government-wide statement of net assets.

**I. Accrued Liabilities and Long-Term Obligations**

All payables, accrued liabilities and other long-term obligations are reported on the government-wide financial statements. In general, governmental fund payables and accrued liabilities are reported as obligations of the funds regardless of whether they will be liquidated with current resources. However, compensated absences and contractually required pension obligation are reported as liabilities in the fund financial statements only to the extent they will not be paid with current expendable available financial resources. In general, amounts paid more than sixty days after year-end are considered not to have been paid using current available financial resources.

**J. Interfund Transactions**

Exchange transactions between funds are reported as revenues in the seller fund and as expenditures in the purchase funds. Flows of cash or goods from one fund to another without requirement for repayment are reported as interfund transfers. Repayments from funds responsible for particular expenditures to the funds that initially paid for them are not presented on the financial statements.

**K. Deferred Revenues**

Deferred revenues 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, 2004, but which were levied to finance fiscal year 2005 operations, have been recorded as deferred revenues. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenues.

**NORTHWESTERN LOCAL SCHOOL DISTRICT  
CLARK COUNTY**

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

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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

**L. Exchange/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.

Non-exchange transactions, in which the School 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 School District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

**M. Restricted Assets**

Restricted assets in the general fund are cash and cash equivalents whose use is limited by legal requirements. Restricted assets represent resources required by statute to be set-aside by the School District to create a reserve for budget stabilization. See Note 18 for the calculation of the year-end restricted asset balance and the corresponding fund balance reserve.

**N. Fund Balance Reserves**

The School 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 that is available for appropriation in future periods. Fund equity reserves have been established for encumbrances, inventories, contributions to permanent funds, property taxes, and budget stabilization.

The reserve for property taxes represents taxes recognized as revenue under generally accepted accounting principles but not available for appropriation under State statute. The reserve for budget stabilization represents money required to be set-aside by statute to protect against cyclical changes in revenues and expenditures. The reserve for contributions signifies the legal restrictions on the use of principal.

**NORTHWESTERN LOCAL SCHOOL DISTRICT  
CLARK COUNTY**

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

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**O. Fund Designations**

The School District designates fund balance to indicate tentative planned expenditures of financial resources. The designations reflect the school district's intentions, are subject to change and are reported as part of unreserved fund balance. Fund designations are established for budget stabilization.

The designation for budget stabilization represents money set-aside for budget stabilization in excess of statutory requirements.

**P. Net Assets**

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

**Q. Estimates**

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

**R. Reconciliation of government-wide and fund financial statements**

Explanation of certain differences between the governmental fund balance sheet versus the government-wide statement of net assets, and the Statement of Revenues and Changes in Fund Balances versus the Statement of Activities.

The governmental fund balance sheets includes a reconciliation between *fund balance – total governmental funds* and *net assets – governmental activities* as reported in the government-wide statement of net assets. One element of that reconciliation explains that “long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.” The details of this (\$1,849,476) difference are as follows:

Capital Lease Payable	(\$1,135,000)
Long Term Pension Obligation	(123,987)
Compensated Absences	(590,489)
Net Adjustment to reduces <i>fund balance – total governmental funds</i> to arrive at <i>net assets – governmental activities</i>	<u>(\$1,849,476)</u>

Another element of that reconciliation explains that “capital assets used in governmental activities are not financial resources and, therefore, are not reported in the fund.” The details of the \$7,467,265 difference are as follows:

**NORTHWESTERN LOCAL SCHOOL DISTRICT  
CLARK COUNTY**

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

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Prior Capital Assets	\$15,142,794
Capital Acquisitions in Fiscal Year	553,645
Prior Accumulated Depreciation	(7,737,532)
Fiscal Year Depreciation	(365,832)
Capital Disposals in Fiscal Year	(418,094)
Accumulated Depreciation on Disposals	292,284
Net Adjustment to increase <i>fund balance</i> – <i>total governmental funds</i> to arrive at <i>net assets</i> – <i>governmental activities</i>	\$7,467,265

Another element of that reconciliation states that “Revenues in the statement of activities that do not provide current financial resources are not reported as revenue in the funds.” The details of this \$19,846 are as follows:

Grant revenue received in September	\$19,846
Net Adjustment – capital assets to increase <i>fund balance</i> – <i>total governmental funds</i> to arrive at <i>net assets</i> – <i>governmental activities</i>	\$19,846

Another element of the reconciliations state that “Capital additions are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense.” The details of this \$62,003 are as follows:

Current Capital Additions	\$553,645
Loss on Disposal of Assets	(125,810)
Depreciation Expense	(365,832)
Net Adjustment – capital assets to increase <i>fund balance</i> – <i>total governmental funds</i> to arrive at <i>net assets</i> – <i>governmental activities</i>	\$62,003

Another element of the reconciliation states that “Revenues in the statement of activities that do not provide current financial resources are not reported as revenue in the funds.” The details of the \$11,911 are as follows:

Increase in Consumable Inventory	\$10,670
Change in Grant Revenue	1,241
Net Adjustment – revenues that do not provide current financial resources	\$11,911

**3. ACCOUNTABILITY AND COMPLIANCE**

At June 30, 2004, the Lunchroom, Ohio Reads, and Other State Grants special revenue funds had deficit fund balances of \$30,918, \$38, and \$19 respectively. The General Fund is liable for any deficit in the Ohio Reads and Other State Grants special revenue funds and provides transfers to cover deficit balances; however, this is done when cash is needed rather than when accruals occur.

The result of the deficit in the Lunchroom special revenue fund is the result of revenues not covering operational costs. The School District will continue to monitor these deficits and take appropriate actions if necessary.

**NORTHWESTERN LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(Continued)**

**4. BUDGETARY BASIS OF ACCOUNTING**

While the School District is reporting financial position, results of operations, and changes in fund balances 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, disbursements, and encumbrances. The Statement of Revenues, Expenditures and Changes in Fund Balances - Budget (Budget Basis) and Actual – 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 GAAP basis are that:

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures/expenses for all funds (budget basis) rather than as a reservation of fund balance.
4. Advances-in and advances-out are operating transactions (budget basis) as opposed to balance sheet transactions (GAAP basis).

The following tables summarize the adjustments necessary to reconcile the GAAP and budgetary basis statements by fund type:

<b>Net Change in Fund Balances - General Fund</b>	
	<b>General</b>
GAAP Basis:	\$(13,249)
Revenue Accruals	(30,622)
Expenditure Accruals	83,537
Encumbrances	(112,922)
Advances	(43,598)
Budget Basis	\$(116,854)

**5. DEPOSITS AND INVESTMENTS**

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

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

Inactive deposits are public deposits that the Board of Education has identified as not required for use within the current two-year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.



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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
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(Continued)**

**5. 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, but not limited to, time certificates of deposit maturing not more than one year from the date of deposit, or must evidence interim deposits by savings or deposit accounts including passbook accounts.

Protection of School District's deposits is provided by the Federal Deposit Insurance Corporation, 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.

State statute permits interim monies to 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 security 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 issuance 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 division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio); and
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred eighty days from the date of purchase in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time.

Investments in stripped principal or interest obligation, 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 School 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.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
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(Continued)**

**5. DEPOSITS AND INVESTMENTS (Continued)**

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

**Deposits:** At fiscal year end, the carrying amount of the School District's deposits was \$454,644 and the bank balance was \$771,335. Of the bank balance, \$200,000 was covered by federal depository insurance and \$571,335 was uninsured and uncollateralized. Although the securities serving as collateral were held by the pledging financial institution's trust department in the School District's name and all State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements would potentially subject the School District to a successful claim by the Federal Deposit Insurance Corporation.

**Investments:** According to GASB Statement 3, the School District's investments are categorized below to give an indication of the level of risk assumed by the School District at fiscal year end. Category 1 includes investments that are insured or registered or for which the School District or its agent in the School District's name holds the securities. Category 2 includes uninsured and unregistered investments that are held by the counterparty's trust department or agent in the School District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the School District's name. STAR Ohio, an investment pool operated by the Ohio State Treasurer and the First America Treasury Market Fund are unclassified investments since they are not evidenced by securities that exist in physical or book entry form.

The School District's investments at year end included Federal Home Loan Bank (FHLB) Notes, Federal National Mortgage Association (FNMA) Notes, First America Treasury Obligation (FATO) Notes, Federal Home Loan Mortgage (FHLM) Corporation, Federal Home Loan Mortgage Corporation Discount Notes, Federal National Mortgage Association Discount Notes, First America Treasury Market Fund, and STAR Ohio.

The FHLB notes have interest rates that vary directly with the Constant Maturity Treasury (CMT), an index of Treasury securities published by the Federal Reserve Board. The notes are issued with a coupon floor and a coupon cap which establish a range of possible interest rates for the security regardless of the change in market rates. The securities were selected for purchase because the minimum interest rate, when coupled with the discount at the time of purchase, yields a rate of return that exceeds what was available from more conventional securities and that yield will increase if market interest rates increase.

	<u>Category 2</u>	<u>Category 3</u>	<u>Unclassified</u>	<u>Carrying/Fair Value</u>
FHLB Notes	\$419,078			\$419,078
FATO Notes	10,159			10,159
FHLM Notes	198,059			198,059
FNMA Discount Notes	820,141			820,141
FHLMC Notes	397,090			397,090
Key Bank Mutual Funds		\$39,478		39,478
STAR Ohio			\$1,123,733	1,123,733
	<u>\$1,844,527</u>	<u>\$39,478</u>	<u>\$1,123,733</u>	<u>\$3,007,738</u>

Cash and cash equivalents and investments are pooled for balance sheet classification on the basic financial statements because the pool consists of deposits, short-term investments or long-term investments that can be converted to liquid assets. A reconciliation between the classifications of cash and investments on the fund financial statements and classification per GASB Statement No. 3 is as follows:

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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
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(Continued)**

**5. DEPOSITS AND INVESTMENTS (Continued)**

	<u>Cash and Cash Equivalents/Deposits</u>	<u>Investments</u>
Equity in Pooled Cash and Cash Equivalents		
– Basic Financial Statements	\$3,462,382	\$0
Investments:		
Mutual Fund Sweep Account	(39,478)	39,478
STAR Ohio	(1,123,733)	1,123,733
FHLB Notes	(419,078)	419,078
FATO Notes	(10,159)	10,159
FHLM Notes	(198,059)	198,059
FNMA Discount Notes	(820,141)	820,141
FHLMC	(397,090)	397,090
GASB Statement No. 3	<u>\$454,644</u>	<u>\$3,007,738</u>

**6. PROPERTY TAXES**

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

Property taxes include amounts levied against all real, public utility and tangible personal property located in the School District. Property tax revenue received during calendar 2004 for real and public utility property taxes represents collections of calendar 2003 taxes. Property tax payments received during calendar 2004 for tangible personal property (other than public utility property) is for calendar 2004 taxes. 2004 real property taxes are levied after April 1, 2004, on the assessed value as of January 1, 2004, the lien date. Assessed values are established by State law at thirty-five percent of appraised market value.

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

2004 tangible personal property taxes are levied after April 1, 2003, on the value as of December 31, 2003. Collections are made in 2004. Tangible personal property assessments are twenty-five percent of true value.

Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, 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.

Tangible personal property taxes paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20.

**NORTHWESTERN LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(Continued)**

**6. PROPERTY TAXES (Continued)**

The School District receives property taxes from Clark and Champaign Counties. The Clark County Auditor periodically advances to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2004, are available to finance fiscal year 2004 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivables represent delinquent taxes outstanding and real property, personal property and public utility taxes, which became measurable as of June 30, 2004, and for which there is an enforceable claim. Although total property tax collections for the next fiscal year are measurable, only the amounts available as an

advance at June 30, were levied to finance current year operations. The receivable is therefore offset by a credit to deferred revenue for that portion not levied to finance current year operations. The total amount available as an advance at June 30, 2004 was \$417,326 and is recognized as revenue. \$402,246 was available to the general fund and \$15,080 was available to the permanent improvement capital projects fund.

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

	<b>2003 Second- Half Collections</b>		<b>2004 First- Half Collections</b>	
	<b>Amount</b>	<b>Percent</b>	<b>Amount</b>	<b>Percent</b>
Agricultural/Residential and Other Real Estate	\$165,601,200	86.98%	\$169,158,710	87.50%
Public Utility Personal	7,014,580	3.68	6,600,300	3.41
Tangible Personal Property	17,775,880	9.34	17,582,818	9.09
<b>Total Assessed Value</b>	<b>\$190,391,660</b>	<b>100.00%</b>	<b>\$193,341,828</b>	<b>100.00%</b>
Tax rate per \$1,000 of Assessed valuation	\$33.90		\$33.90	

**7. RECEIVABLES**

Receivables at June 30, 2004, consisted of property taxes, accounts (student fees), and intergovernmental grants. 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 fiscal year guarantee of federal funds.

<b>Funds:</b>	<b>Amount</b>
Intergovernmental - IDEA B	\$38,993
Intergovernmental - Title I	19,127
Intergovernmental - Title V	12,813
Intergovernmental - Title II-A	3,272
Intergovernmental - Other Fed	2,322
Intergovernmental - Gen Fund	2,185
<b>Total</b>	<b>\$78,712</b>

**NORTHWESTERN LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(Continued)**

**8. CAPITAL ASSETS**

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

	<u>Balance 7/01/03</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance 6/30/04</u>
<b>Governmental Activities</b>				
<i>Capital Assets, not being depreciated</i>				
Land	\$799,276	\$0	\$0	\$799,276
<i>Capital Assets, being depreciated</i>				
Buildings and Improvements	10,500,653	327,378	0	10,828,031
Furniture and Equipment	2,567,403	163,006	(418,094)	2,312,315
Vehicles	1,275,461	63,261	0	1,338,722
Total at Historical Cost	<u>15,142,793</u>	<u>553,645</u>	<u>(418,094)</u>	<u>15,278,344</u>
Total Accumulated Depreciation	<u>(7,737,531)</u>	<u>(365,832)</u>	<u>292,284</u>	<u>(7,811,079)</u>
Governmental Activities				
Capital Assets, Net	<u>\$7,405,262</u>	<u>\$187,813</u>	<u>(\$125,810)</u>	<u>\$7,467,265</u>

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$120,293
Special	836
Support Services:	
Pupils	482
Instructional Staff	3,582
Board of Education	0
Administration	3,785
Fiscal	125
Operation and Maintenance of Plant	141,356
Pupil Transportation	82,005
Central	808
Operation on Non-Instructional Services	
Food Services	1,968
Extracurricular Activities	10,592
Total Depreciation Expense	<u>\$365,832</u>

**9. RISK MANAGEMENT**

**A. Property and Liability**

The School District is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2004, the School District contracted with Marsh Insurance for property, general liability, professional and fleet insurance. Coverage provided by Marsh is as follows:

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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
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(Continued)**

**9. RISK MANAGEMENT (Continued)**

Building and Contents-replacement cost (\$2,500 deductible)	\$50,000,000
Boiler and Machinery (\$2,500 deductible)	50,000,000
Automobile Liability (\$1,000 deductible)	1,000,000
Professional Liability (no deductible)	
Single Occurrence	1,000,000
Aggregate	5,000,000
General Liability	
Per occurrence	1,000,000
Total per year (per member)	1,000,000

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

**B. Workers' Compensation**

For fiscal year 2004, the School District participated in the Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan (GRP), a workers' compensation insurance purchasing pool (Note 16). The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund." This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Integrated Comp Inc. provides administrative, cost control, and actuarial services to the GRP.

**10. DEFINED BENEFIT PENSION PLANS**

**A. School Employees Retirement System**

The School District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by 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 43215-3476 or by calling (614) 222-5853.

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

**10. DEFINED BENEFIT PENSION PLANS (Continued)**

Plan members are required to contribute 9.09 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2004, 9.09 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2003, 8.17 percent was used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2004, 2003, and 2002 were \$205,446, \$167,832 and \$96,959 respectively; 52.55 percent has been contributed for fiscal year 2004 and 100 percent for fiscal years 2003 and 2002. \$97,479 representing the unpaid contribution for fiscal year 2004, is recorded as a liability within the respective funds and the full liability on the government-wide statement of net assets.

**B. State Teachers Retirement System**

The School District contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer public employee retirement system. STRS provides retirement and disability benefits, annual cost-of-living adjustments, and death and survivor benefits to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information for STRS. That report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3371 or by calling (888) 227-7877.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5% of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan.

Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

**NORTHWESTERN LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(Continued)**

**10. DEFINED BENEFIT 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, 2004 plan members are required to contribute 10% of their annual covered salary and the District is required to contribute 14%; 13% was the portion used to fund pension obligations. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory Authority for member and employer contributions. The District's contributions to STRS for the years ending June 30, 2004, 2003, and 2002, were \$871,763, \$873,403, and \$564,094 respectively; 82.41 percent has been contributed for fiscal year 2004 and 100 percent for the fiscal years 2003 and 2002. \$153,337 represents the unpaid contribution for fiscal year 2004 and is recorded as a liability within the respective funds and on statement of net assets. Contributions to the DC and Combined Plans for fiscal year 2004 were \$3,322 made by the School District and \$3,164 made by the plan members.

**11. POSTEMPLOYMENT BENEFITS**

The School District provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System (STRS), 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 on a pay-as-you-go basis.

All STRS benefit recipients and sponsored dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2004, the STRS Board allocated employer contributions equal to 1.0 percent of covered payroll to the Health Care Reserve Fund. For the School District, this amount equaled \$67,059 for fiscal year 2004.

STRS pays health care benefits from the Health Care Reserve Fund. At June 30, 2003, (the latest information available) the balance in the Fund was \$47.6 billion. At June 30, 2003, net health care costs paid by STRS were \$34.2 billion and STRS had 105,000 eligible benefit recipients.

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. Members retiring on or after August 1, 1989, with less than twenty-five years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75 percent of the premium. 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, 2004, employer contributions to fund health care benefits were 4.91 percent of covered payroll. 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 2004, the minimum pay was established at \$14,500. For the School District, the amount contributed to fund health care benefits, including the surcharge, during the 2004 fiscal year equaled \$145,934.



**NORTHWESTERN LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(Continued)**

**11. POSTEMPLOYMENT BENEFITS (continued)**

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 annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2003 were \$204,930,737 and the target level was \$307.4 million. At June 30, 2003 SERS had net assets available for payment of health care benefits of \$303.6 million. SERS has 50,000 participants currently receiving health care benefits.

**12. EMPLOYEE BENEFITS**

**A. Compensated Absences**

The criteria for determining vacation and sick leave components are derived from negotiated agreements and State laws. Classified employees earn five to twenty-five days of vacation per fiscal year, depending upon length of service. Accumulated, unused vacation time is paid to classified employees and administrators. 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. Sick leave may be accumulated up to a maximum of 240 days for all personnel. Upon retirement, payment is made for 25 percent for teachers and 25 percent for other employees of accrued, but unused sick leave credit to a maximum of 55 days for certified employees.

**B. Insurance Benefits**

The School District provides life insurance and accidental death and dismemberment insurance to most employees through Met Life. Medical/surgical benefits are provided through Anthem and dental insurance through EPC Benefits Plan Trust.

**13. CAPITAL LEASES - LESSEE DISCLOSURE**

In the past, the District has entered into capitalized leases for copiers and an addition to the Elementary School.

The leases meet the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases," which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital lease payments have been reclassified and are reflected as debt service expenditures in the basic financial statements. These expenditures are reported as program/function expenditures on a budgetary basis.

Capital assets have been capitalized on the statement of net assets in the amount \$1,625,000 and a corresponding liability was recorded. This amount represents the present value of the minimum lease payments at the time of acquisition.

Principal payments in fiscal year 2004 totaled \$90,000.

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

**NORTHWESTERN LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(Continued)**

**13. CAPITAL LEASES - LESSEE DISCLOSURE (Continued)**

<u>Fiscal Year Ending June 30,</u>	<u>Capital Lease</u>
2005	\$147,466
2006	148,005
2007	148,264
2008	148,210
2009	147,838
2010 – 2014	684,213
Total	\$1,423,996
Less: Amount Representing Interest	(288,996)
Present Value of Net Minimum Lease Payments	<u>\$1,135,000</u>

The annual debt service requirements to maturity for the capital lease paid are as follows:

<u>Fiscal Year Ending June 30,</u>	<u>Governmental Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$95,000	\$52,466	\$147,466
2006	100,000	48,005	148,005
2007	105,000	43,264	148,264
2008	110,000	38,210	148,210
2009	115,000	32,838	147,838
2010 – 2014	610,000	74,213	684,213
Total	<u>\$1,135,000</u>	<u>\$288,996</u>	<u>\$1,423,996</u>

**14. LONG-TERM LIABILITIES**

The changes in the School District's long-term obligations (non-current liabilities) during fiscal year 2004 were as follows:

	<u>Amount Outstanding 6/30/03</u>	<u>Additions</u>	<u>Deductions</u>	<u>Amount Outstanding 6/30/04</u>	<u>Amounts Due in One Year</u>
Governmental Activities					
Capital Leases	\$1,225,000	\$0	\$90,000	\$1,135,000	\$95,000
Intergovernmental Payables	118,286	123,987	118,286	123,987	\$123,987
Compensated Absences	345,947	651,440	374,456	622,931	32,442
Total	<u>\$1,689,233</u>	<u>\$775,427</u>	<u>\$582,742</u>	<u>\$1,881,918</u>	<u>\$251,429</u>

Capital leases will be paid from the General Fund. Intergovernmental payable and compensated absences will be paid from the fund from which the employees' salaries are paid. The intergovernmental payable represents contractually required pension contributions paid outside the available period.

The School District's overall legal debt margin was \$17,400,765 with an unvoted debt margin of \$193,342 and an energy conservation debt margin of \$1,740,076 at June 30, 2004.

**NORTHWESTERN LOCAL SCHOOL DISTRICT  
CLARK COUNTY**

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

**15. INTERFUND ACTIVITY**

Interfund balances at June 30, 2004, consist of the following individual receivables and payables and operating transfers in the governmental fund balance sheet (such amounts are removed in the statement of net assets):

	<b>Advances Outstanding 6/30/2003</b>	<b>Advances Out</b>	<b>Advance In</b>	<b>Advances Outstanding 6/30/04</b>	<b>Transfers In</b>	<b>Transfers Out</b>
General Fund	\$0	\$43,598	\$0	\$43,598		\$528
Non-Major Funds	0	0	43,598	(43,598)	\$528	0
Total All Funds	<u>\$0</u>	<u>\$43,598</u>	<u>\$43,598</u>	<u>\$0</u>	<u>\$528</u>	<u>\$528</u>

The advance amounts were returned in Fiscal Year 05.

**16. JOINTLY GOVERNED ORGANIZATIONS AND INSURANCE PURCHASING POOL**

**A. Jointly Governed Organizations**

**Miami Valley Educational Computer Association** - The School District is a participant in the Miami Valley Educational Computer System (MVECA) which is a computer consortium. MVECA is an association of public schools within the boundaries of Clark, Clinton, Fayette, Greene and Highland Counties and Cities of Springfield, Wilmington, Washington Court House, Xenia and Hillsboro. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member districts.

The governing board of MVECA consists of four Superintendents and three Treasurers of member school districts, with three of the four Superintendents and all three Treasurers elected by a majority vote of all member school districts except the Greene County Career Center.

The fifth Superintendent is from the Greene County Career Center. The School District paid MVECA \$25,721 for services provided during the year.

Financial information can be obtained from Norma Stewart, who serves as Executive Director, at 330 East Enon Road, Yellow Springs, Ohio 45387.

**Southwestern Ohio Educational Purchasing Council** -The Southwestern Ohio Educational Purchasing Council (SOEPC) is a purchasing cooperative made up of nearly 100 school districts in 12 counties. The purpose of the cooperative is to obtain prices for quality merchandise and services commonly used by schools. All member districts are obligated to pay all fees, charges, or other assessments as established by the SOEPC.

One year prior notice is necessary for withdrawal from the group. During this time, the withdrawing member is liable for all member obligations. Payments to SOEPC are made from the General Fund. During the fiscal year, the School District paid its medical, dental and vision insurances through the SOEPC. To obtain financial information, write to the Southwestern Ohio Educational Purchasing Cooperative, Robert Brown, who serves as Director, at 1831 Harshman Road, Dayton, Ohio 45424.

**NORTHWESTERN LOCAL SCHOOL DISTRICT  
CLARK COUNTY**

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

**16. JOINTLY GOVERNED ORGANIZATIONS AND INSURANCE PURCHASING POOL (Continued)**

**Southwestern Ohio Instructional Technology Association** - The Southwestern Ohio Instructional Technology Association (SOITA) is a not-for-profit corporation formed under Section 1702.01 of the Ohio Revised Code. The purpose of the corporation is to serve the educational needs of the area through television programming for the advancement of educational programs.

The Board of Trustees is comprised of twenty-one representatives of SOITA member schools or institutions. The qualified members within the counties, i.e. Auglaize, Butler, Champaign, Clark, Clinton, Darke, Fayette, Greene, Hamilton, Logan, Mercer, Miami, Montgomery, Preble, Shelby, and Warren. Montgomery, Greene and Butler Counties elect two representatives per area. One at-large non-public representative is elected by the non-public school SOITA members as the state-assigned SOITA service area representative. One at-large higher education representative is elected by higher education SOITA members from within state-assigned SOITA service area.

All member districts are obligated to pay all fees, charges, or other assessments as established by the SOITA. Upon dissolution, the net assets shall be distributed to the federal government, or to a state or local government, for a public purpose. Payments to SOITA are made from the General Fund. During the fiscal year, the School District paid \$8,894 to SOITA. To obtain financial information, write to the Southwestern Ohio Instructional Technology Association, Steve Strouse, who serves as Director, at 150 East Sixth Street, Franklin, Ohio 45005.

**Clark County Family and Children First Council** – The Clark County Family and Children First Council (the Council) is a voluntary association established with the purpose to coordinate and integrate those services within Clark County which are available for families and children and to establish a comprehensive, coordinated, multi-disciplinary, interagency system for the delivery of such services in order to more effectively meet the needs of families and children.

The Board of Trustees is comprised of eighteen representatives of each of the members of the Council, including the Superintendent of the Clark County Educational Service Center, who was appointed by the Superintendents of the Clark County schools. All members are obligated to pay all dues as established by the Council to aid the financing of the operations and programs of the Council. The Northwestern Local School District does not pay any dues since the Clark County Educational Service Center represents the District. Any member withdrawing from the Council must give one hundred eighty days written notice to the Council after formal action of the member's governing board. To obtain financial information, write to the Clark County Family and Children First Council, Marilyn Demma, who serves as Treasurer, at 6 West High Street, Suite 500, Springfield, Ohio 45502.

**B. Insurance Purchasing Pool**

**Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan** - The School District participates in the Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool. The GRP's business and affairs are conducted by an eleven member Executive Committee consisting of the Chairperson, the Vice-Chairperson, a representative from the Montgomery County Educational Service Center and eight other members elected by majority vote of all member school districts. The Chief Administrator of GRP serves as the coordinator of the program. Each year, the participating school districts pay an enrollment fee to the GRP to cover the costs of administering the program.

**NORTHWESTERN LOCAL SCHOOL DISTRICT  
CLARK COUNTY**

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

**17. CONTINGENCIES**

**A. Grants**

The School District received financial assistance from federal and state agencies in the form of grants. The expenditure 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 General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2004.

**B. Litigation**

At June 30, 2004 the School District had one legal case pending in Clark County Common Pleas Court. Action Electric claims final payment was not made to PDQ Electric (Action Electric purchased PDQ Electric) for an addition built onto Northwestern Elementary School in 1997. The amount in dispute is a penalty called for in the original construction contract. The amount of money in dispute is immaterial to the financial statements.

**18. SET-ASIDE CALCULATIONS AND FUND RESERVES**

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

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

	<u>Textbooks</u>	<u>Capital Acquisition</u>	<u>Budget Stabilization</u>
Set-aside Cash Balance as of June 30, 2004	\$(204,395)	\$(159,581)	\$39,318
Current Year Set-aside Requirement	248,093	248,093	0
Current Year Offsets	0	(164,550)	0
Qualifying Disbursements	(328,244)	(221,132)	0
Totals	<u>\$(284,546)</u>	<u>\$(297,169)</u>	<u>\$39,318</u>
Reserve Balance Carried Forward to FY 2005	\$(284,546)	\$(164,550)	\$0
Set-aside Reserve Balance as of June 30, 2004	<u>\$0</u>	<u>\$0</u>	<u>\$39,318</u>

Although the School District had qualifying disbursements during the year that reduced the capital acquisition and textbook set-aside amounts to below zero. The capital acquisition negative amount may only be carried forward to the extent of the proceeds from the Permanent Improvement property tax levy.

**NORTHWESTERN LOCAL SCHOOL DISTRICT  
CLARK COUNTY**

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

**19. STATE SCHOOL FUNDING DECISION**

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

The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school-funding scheme that is thorough and efficient..."

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

**NORTHWESTERN LOCAL SCHOOL DISTRICT  
CLARK COUNTY**

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

<u>Federal Grantor/ Pass Through Grantor Program Title</u>	<u>Pass Through Entity Number</u>	<u>Federal CFDA Number</u>	<u>Receipts</u>	<u>Disbursements</u>
<b>UNITED STATES DEPARTMENT OF AGRICULTURE</b>				
<i>Direct Receipt:</i>				
Federal Farm Subsidy Payments	N/A	10.055	\$1,669	\$1,669
Nutrition Cluster:				
Cash in lieu of Commodities	N/A	10.550	14,680	14,680
<i>Passed Through Ohio Department of Education:</i>				
National School Lunch Program	LLP4-2003	10.555	10,567	10,567
	LLP4-2004		78,017	78,017
Total National School Lunch Program			<u>88,584</u>	<u>88,584</u>
Special Milk Program	02PU-2003	10.556	34	34
	02PU-2004		447	447
Total Milk Program			<u>481</u>	<u>481</u>
Total Nutrition Cluster			<u>103,745</u>	<u>103,745</u>
Total United States Department of Agriculture			<u>105,414</u>	<u>105,414</u>
<b>UNITED STATES DEPARTMENT OF EDUCATION</b>				
<i>Passed Through Ohio Department of Education:</i>				
Special Education Grants to State	6BSD-2004-P	84.027	12,000	24,680
	6BSF-2004		208,861	205,774
Total Special Education Grants to State			<u>220,861</u>	<u>230,454</u>
<i>Passed through Clark County Educational Service Center:</i>				
Special Education Preschool Grant	PGS1-2003	84.173	10,833	10,833
Total Special Education Cluster			<u>231,694</u>	<u>241,287</u>
<i>Passed Through Ohio Department of Education:</i>				
Title I Grants to Local Educational Agencies	C1S1-2003	84.010	(4,009)	7,337
	C1S1-2004		143,744	135,318
Total Title I Grants to Local Educational Agencies			<u>139,735</u>	<u>142,655</u>
Safe and Drug Free Schools and Communities	DRS1-2004	84.186	7,126	7,126
State Grants for Innovative Programs	C2S1-2003	84.298	(4,812)	1,111
	C2S1-2004		13,424	26,236
Total State Grants for Innovative Programs			<u>8,612</u>	<u>27,347</u>
Education Technology State Grants	TJS1-2003	84.318	(458)	
	TJS1-2004		2,405	1,932
Total Education Technology State Grants			<u>1,947</u>	<u>1,932</u>
Improving Teacher Quality State Grant	TRS1-2003	84.367	(3,228)	10,237
	TRS1-2004		63,656	54,053
Total Improving Teacher Quality State Grant			<u>60,428</u>	<u>64,290</u>
Total United States Department of Education			<u>449,542</u>	<u>484,637</u>
<b>Totals Federal Financial Assistance</b>			<u><u>\$554,956</u></u>	<u><u>\$590,051</u></u>

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

**NORTHWESTERN LOCAL SCHOOL DISTRICT  
CLARK COUNTY**

**NOTES TO SCHEDULE OF FEDERAL AWARDS EXPENDITURES  
FISCAL YEAR ENDED JUNE 30, 2004**

**NOTE A - SIGNIFICANT ACCOUNTING POLICIES**

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

**NOTE B - NUTRITION CLUSTER**

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

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





## **Auditor of State Betty Montgomery**

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

Northwestern Local School District  
Clark County  
5610 Troy Road  
Springfield, Ohio 45502

To the Board of Education:

We have audited the financial statements of Northwestern Local School District, Clark County, (the District), as of and for the year ended June 30, 2004, and have issued our report thereon dated December 6, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

#### **Compliance**

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted an immaterial instance of noncompliance that we have reported to management of the District in a separate letter dated December 6, 2004.

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

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted a matter involving the internal control over financial reporting that does not require inclusion in this report, that we have reported to management of the District in a separate letter dated December 6, 2004.

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Northwestern Local School District  
Clark County  
Independent Accountants' Report On Compliance And On  
Internal Control Required By *Government Auditing Standards*  
Page 2

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

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

**Betty Montgomery**  
Auditor of State

December 6, 2004



## Auditor of State Betty Montgomery

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

Northwestern Local School District  
Clark County  
5610 Troy Road  
Springfield, Ohio 45502

To the Board of Education:

#### Compliance

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

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

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

#### Internal Control Over Compliance

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

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**Internal Control Over Compliance  
(Continued)**

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

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



**Betty Montgomery**  
Auditor of State

December 6, 2004

**NORTHWESTERN LOCAL SCHOOL DISTRICT  
CLARK COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
JUNE 30, 2004**

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

<i>(d)(1)(i)</i>	<b>Type of Financial Statement Opinion</b>	Unqualified
<i>(d)(1)(ii)</i>	<b>Were there any material control weakness conditions reported at the financial statement level (GAGAS)?</b>	No
<i>(d)(1)(ii)</i>	<b>Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?</b>	No
<i>(d)(1)(iii)</i>	<b>Was there any reported material non-compliance at the financial statement level (GAGAS)?</b>	No
<i>(d)(1)(iv)</i>	<b>Were there any material internal control weakness conditions reported for major federal programs?</b>	No
<i>(d)(1)(iv)</i>	<b>Were there any other reportable internal control weakness conditions reported for major federal programs?</b>	No
<i>(d)(1)(v)</i>	<b>Type of Major Programs' Compliance Opinion</b>	Unqualified
<i>(d)(1)(vi)</i>	<b>Are there any reportable findings under § .510?</b>	No
<i>(d)(1)(vii)</i>	<b>Major Programs (list):</b>	Special Education Cluster, CFDA 84.027 and 84.173
<i>(d)(1)(viii)</i>	<b>Dollar Threshold: Type A\B Programs</b>	Type A: > \$ 500,000 Type B: all others
<i>(d)(1)(ix)</i>	<b>Low Risk Auditee?</b>	Yes

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

None.

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

None.





**Auditor of State  
Betty Montgomery**

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**NORTHWESTERN LOCAL SCHOOL DISTRICT  
CLARK 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  
DECEMBER 28, 2004**