

NORTHWESTERN LOCAL SCHOOL DISTRICT

SINGLE AUDIT

YEAR ENDED JUNE 30, 2003



**Auditor of State
Betty Montgomery**

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

We have reviewed the Independent Auditor's Report of the Northwestern Local School District, Wayne County, prepared by Rea & Associates, Inc., for the audit period July 1, 2002 through June 30, 2003. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

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

BETTY MONTGOMERY
Auditor of State

October 21, 2003

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**NORTHWESTERN LOCAL SCHOOL DISTRICT
WAYNE COUNTY**

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Rea & Associates, Inc.

ACCOUNTANTS AND BUSINESS CONSULTANTS

August 8, 2003

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

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of Northwestern Local School District as of and for the year ended June 30, 2003, as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances and reserves for encumbrances of the District as of June 30, 2003, and its combined cash receipts and disbursements for the year then ended on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued a report dated August 8, 2003, on our consideration of Northwestern Local School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Governmental Audit Standards* and should be read in conjunction with this report in considering the results of our audit.

Rea & Associates, Inc.

NORTHWESTERN LOCAL SCHOOL DISTRICT

COMBINED STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN FUND CASH BALANCES
ALL GOVERNMENTAL AND SIMILAR FIDUCIARY FUND TYPES
FOR THE YEAR ENDED JUNE 30, 2003

	Governmental Fund Types			Capital Projects	Fiduciary	Total (Memorandum Only)
	General	Special Revenue	Debt Service		Fund Type Expendable Trust	
CASH RECEIPTS						
Taxes	\$ 3,310,754	\$ 44,028	\$ 747,793	\$ 191,826	\$ 0	\$ 4,294,401
Intergovernmental	6,017,049	441,170	92,552	9,341,254	0	15,892,025
Investment Income	18,992	2,944	0	206,464	2,335	230,735
Tuition and Fees	214,850	0	0	0	0	214,850
Extracurricular Activities	0	319,957	0	0	4,522	324,479
Gifts and Donations	0	13,795	0	0	11,820	25,615
Miscellaneous	20,687	22,103	0	1,360	2,712	46,862
Total Cash Receipts	9,582,332	843,997	840,345	9,740,904	21,389	21,028,967
CASH DISBURSEMENTS:						
Instruction:						
Regular	4,302,124	42,710	0	96,606	0	4,441,440
Special	677,584	290,986	0	0	0	968,570
Vocational	512,589	0	0	0	0	512,589
Other	252,959	0	0	0	0	252,959
Support Services:						
Pupils	267,011	149,319	0	0	0	416,330
Instructional Staff	392,503	92,365	0	0	3,799	488,667
Board of Education	76,098	0	0	0	0	76,098
Administration	755,380	13,134	0	0	0	768,514
Fiscal	213,117	16,866	16,221	4,386	0	250,590
Operation and Maintenance of Plant	778,115	1,366	0	0	0	779,481
Pupil Transportation	714,865	0	0	0	0	714,865
Central	18,992	29,506	0	0	0	48,498
Operation of Non-Instructional Services	1,200	0	0	0	11,000	12,200
Extracurricular Activities	173,694	154,925	0	0	0	328,619
Capital Outlay	0	0	0	6,820,081	0	6,820,081
Debt Service:						
Principal Retirement	0	0	258,000	0	0	258,000
Interest and Fiscal Charges	0	0	484,038	0	0	484,038
Total Cash Disbursements	9,136,231	791,177	758,259	6,921,073	14,799	17,621,539
Total Cash Receipts Over/(Under) Cash Disbursements	446,101	52,820	82,086	2,819,831	6,590	3,407,428
Other Financing Sources (Uses)						
Operating Transfers In	0	20,975	93,388	0	0	114,363
Operating Transfers Out	(114,363)	0	0	0	0	(114,363)
Total Other Financing Sources (Uses)	(114,363)	20,975	93,388	0	0	0
Excess of Cash Receipts and Other Financing Sources Over/(Under) Cash Disbursements and Other Financing Uses	331,738	73,795	175,474	2,819,831	6,590	3,407,428
Fund Cash Balances, July 1, 2002	729,441	166,551	541,556	8,527,027	135,286	10,099,861
Fund Cash Balances, June 30, 2003	\$ 1,061,179	\$ 240,346	\$ 717,030	\$ 11,346,858	\$ 141,876	\$ 13,507,289
Reserves for Encumbrances	\$ 106,928	\$ 56,871	\$ 0	\$ 9,855,188	\$ 45	\$ 10,019,032

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

NORTHWESTERN LOCAL SCHOOL DISTRICT
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN FUND CASH BALANCES
ALL PROPRIETARY AND SIMILAR FIDUCIARY FUND TYPES
FOR THE YEAR ENDED JUNE 30, 2003

	Proprietary Fund Types		Fiduciary Fund Type		Total (Memorandum Only)
	Enterprise	Internal Service	Non Expendable Trust	Agency	
OPERATING CASH RECEIPTS					
Sales	\$ 277,996	\$ 0	\$ 0	\$ 51,141	\$ 329,137
Charges for Services	0	89,772	0	5,070,237	5,160,009
Investment Income	0	0	153	0	153
Other Operating Revenues	0	0	500	0	500
Total Operating Cash Receipts	<u>277,996</u>	<u>89,772</u>	<u>653</u>	<u>5,121,378</u>	<u>5,489,799</u>
OPERATING CASH DISBURSEMENTS					
Salaries	150,517	0	0	5,500	156,017
Fringe Benefits	80,967	0	0	3,992,639	4,073,606
Purchased Services	15,450	94,168	0	614,424	724,042
Materials and Supplies	181,594	0	0	60	181,654
Other Operating Expenses	52	0	48	57,875	57,975
Total Operating Cash Disbursements	<u>428,580</u>	<u>94,168</u>	<u>48</u>	<u>4,670,498</u>	<u>5,193,294</u>
Operating Income (Loss)	<u>(150,584)</u>	<u>(4,396)</u>	<u>605</u>	<u>450,880</u>	<u>296,505</u>
NON OPERATING CASH RECEIPTS/(DISBURSEMENTS)					
Federal and State Subsidies	128,521	0	0	0	128,521
Other Non-Operating Revenue	791	0	0	0	791
Interest	319	0	0	13,818	14,137
Total Non Operating Cash Receipts/(Disbursements)	<u>129,631</u>	<u>0</u>	<u>0</u>	<u>13,818</u>	<u>143,449</u>
Excess Cash Receipts Over/(Under) Cash Disbursements	<u>(20,953)</u>	<u>(4,396)</u>	<u>605</u>	<u>464,698</u>	<u>439,954</u>
Fund Cash Balances, July 1, 2002	<u>98,920</u>	<u>36,435</u>	<u>8,050</u>	<u>793,453</u>	<u>936,858</u>
Fund Cash Balances, June 30, 2003	<u>\$ 77,967</u>	<u>\$ 32,039</u>	<u>\$ 8,655</u>	<u>\$ 1,258,151</u>	<u>\$ 1,376,812</u>
Reserves for encumbrances	<u>\$ 9,981</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 4,178</u>	<u>\$ 14,159</u>

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

**NORTHWESTERN LOCAL SCHOOL DISTRICT
WAYNE COUNTY**

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

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

Average daily membership on, or as of, October 1, 2002, was 1,450. The District employs 106 certificated and 63 non-certificated employees.

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

B. Basis of Accounting

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

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

C. Cash and Investments

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

D. Fund Accounting

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

**NORTHWESTERN LOCAL SCHOOL DISTRICT
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NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003

Governmental Funds

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

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

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

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

Proprietary Funds

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

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

Fiduciary Funds (Trust and Agency Funds)

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

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

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

**NORTHWESTERN LOCAL SCHOOL DISTRICT
WAYNE COUNTY**

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003

E. Budgetary Process

1. Budget

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

2. Estimated Resources

The County Budget Commission determines if the budget substantiates a need to levy all or part of previously authorized taxes and reviews estimated revenue. The Commission certifies its actions to the District by March 1. As part of the certification, the District receives the official certificate of estimated resources, which states the projected revenue of each fund. Prior to June 30, the District must revise its budget so that the total contemplated expenditures from any fund during the ensuing fiscal year will not exceed the amount available as stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriation measure. On or about July 1, the certificate of estimated resources is amended to include any unencumbered balances from the preceding year. The certificate may be further amended during the year if a new source of revenue is identified or actual receipts exceed current estimates. Budgeted receipts in Note 3 do not include July 1, 2002 unencumbered fund balances. However, those fund balances are available for appropriations.

3. Appropriations

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

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

**NORTHWESTERN LOCAL SCHOOL DISTRICT
WAYNE COUNTY**

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003

4. Encumbrances

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

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

5. Compliance and Accountability

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

F. Property, Plant, and Equipment

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

G. Unpaid Vacation and Sick Leave

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

H. Total Columns on Financial Statements

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

2. POOLED CASH AND INVESTMENTS

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

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

**NORTHWESTERN LOCAL SCHOOL DISTRICT
WAYNE COUNTY**

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003

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

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

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

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

**NORTHWESTERN LOCAL SCHOOL DISTRICT
WAYNE COUNTY**

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003

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

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

Deposits - At year-end, the carrying amount of the District's deposits was \$241,561 and the bank balance was \$249,588, of which \$100,000 was covered by federal depository insurance, or collateralized by the financial institution's public entity deposit pool.

Investments

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

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

	Category 3	Carrying Value	Market Value
U.S. Bank			
U.S. Debt Securities	\$ 3,857,481	\$ 3,857,481	\$ 3,870,048
Investment in State Treasurer's			
Investment Pool		10,785,059	10,785,059
		\$ 14,642,540	\$ 14,655,107

**NORTHWESTERN LOCAL SCHOOL DISTRICT
WAYNE COUNTY**

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003

Restricted Cash – Included in the June 30, 2003, General Fund cash balance is restricted cash and cash equivalents of \$172,311 set aside for the Budget Stabilization Reserve. Although no longer required by state statute, the Budget Stabilization Reserve may still be set aside at the discretion of the School District.

3. BUDGETARY ACTIVITY

Budgetary activity for the year ended June 30, 2003 as follows:

2003 Budgeted vs. Actual Receipts

	Budgeted Receipts	Actual Receipts	Variance
General	\$ 9,470,079	\$ 9,582,332	\$ 112,253
Special Revenue	789,527	864,972	75,445
Debt Service	815,388	933,733	118,345
Capital Projects	8,506,840	9,740,904	1,234,064
Enterprise	420,045	407,627	(12,418)
Internal Service	87,000	89,772	2,772
Fiduciary	5,315,852	5,157,238	(158,614)
Total	<u>\$ 25,404,731</u>	<u>\$ 26,776,578</u>	<u>\$ 1,371,847</u>

2003 Budgeted vs. Actual Expenditures

	Appropriation Authority	Actual Expenditures	Variance
General	\$ 9,384,218	\$ 9,357,522	\$ 26,696
Special Revenue	1,163,485	848,048	315,437
Debt Service	758,258	758,258	0
Capital Projects	8,202,135	16,776,261	(8,574,126)
Enterprise	432,764	438,562	(5,798)
Internal Service	94,168	94,168	0
Fiduciary	4,689,879	4,689,569	310
Total	<u>\$ 24,724,907</u>	<u>\$ 32,962,388</u>	<u>\$ (8,237,481)</u>

**NORTHWESTERN LOCAL SCHOOL DISTRICT
WAYNE COUNTY**

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003

4. GENERAL LONG TERM OBLIGATIONS

	Outstanding June 30, 2002	Additions	Deductions	Outstanding June 30, 2003
General Obligation Bonds				
4.5% to 7.2%	\$ 4,785,000	\$ 0	\$ 135,000	\$ 4,650,000
5.14%	105,000	0	50,000	55,000
Notes payable HB 264 - 5.6%	140,000	0	30,000	110,000
Various Improvement Bonds				
3.00% Due July 1, 2023	3,633,000	0	43,000	3,590,000
	\$ 8,663,000	\$ 0	\$ 258,000	\$ 8,405,000

Outstanding general obligation bonds consist of school building construction issues and school bus issues. General obligation bonds are direct obligations of the District for which its full faith, credit and resources are pledged and are payable from taxes levied on all taxable property in the District. The annual requirement to amortize all debt outstanding as of June 30, 2003, including interest payments of \$4,922,075 is as follows:

	June 30,
2004	\$ 770,544
2005	724,800
2006	779,588
2007	751,611
2008	762,230
Thereafter	9,538,302
	\$ 13,327,075

5. PROPERTY TAXES

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

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

**NORTHWESTERN LOCAL SCHOOL DISTRICT
WAYNE COUNTY**

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003

valuation for residential and agricultural real property, and \$30.77 per \$1,000 of assessed valuation for other real property.

Tangible personal property used in business is required to be reported by its owners by April 30 of each year. The property is assessed for tax purposes at varying statutory percentages of cost. The tax rate applied to tangible personal property for the current year ended December 31, 2002 was \$34.90 per \$1,000 of valuation for both Wayne and Ashland Counties.

6. DEFINED BENEFIT PENSION PLANS

A. SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS)

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

Plan members are required to contribute 9% of their annual covered salary and Northwestern Local School District is required to contribute at an actuarially determined rate. The current rate is 14% of annual covered payroll. The contribution requirement of plan members and Northwestern Local School District are established and may be amended by the SERS Board of Trustees. The School District's contributions to SERS for the fiscal years ended June 30, 2003, 2002 and 2001 were \$224,004, \$237,219, and, \$202,182, respectively; 100 percent has been contributed for the fiscal years 2003, 2002 and 2001.

B. STATE TEACHERS RETIREMENT SYSTEM (STRS)

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

**NORTHWESTERN LOCAL SCHOOL DISTRICT
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NOTES TO THE FINANCIAL STATEMENTS
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Plan members are required to contribute 9.3% of their annual covered salary and Northwestern Local School District is required to contribute an actuarially determined rate. The current rate is 14% of annual covered payroll. The contribution requirement of plan members and Northwestern Local School District are established and may be amended by the STRS Board of Trustees. The School District's contributions to STRS for the fiscal years ended June 30, 2003, 2002, and 2001 were \$682,860, \$743,521, and \$653,472, respectively; 100 percent has been contributed for the fiscal years 2003, 2002 and 2001.

7. POSTEMPLOYMENT BENEFITS

A. SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS)

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

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

After the allocation for basic benefits, the remainder of the employer's 14% contribution is allocated to providing health care benefits. For the fiscal year, ended June 30, 2003, employer contributions to fund health care benefits were 8.54% of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2002, the minimum pay has been established at \$12,400. The surcharge, added to the unallocated portion of the 14% employer contribution rate, provides for maintenance of the asset target level for the health care fund. For the School District, the amount contributed to fund health care benefits, including the surcharge, during the 2003 fiscal year equaled \$152,810.

Health care benefits are financed on a pay-as-you-go basis. The target level for the health care reserve is 150% of annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2002 (the latest information available), were \$182,946,777 and the target level was \$274.4 million. At June 30, 2002, SERS had net assets available for payment of health care benefits of \$335.2 million. SERS had approximately 50,000 participants currently receiving health care benefits.

**NORTHWESTERN LOCAL SCHOOL DISTRICT
WAYNE COUNTY**

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003

B. STATE TEACHERS RETIREMENT SYSTEM (STRS)

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

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

The Board currently allocates employer contributions equal to 1% of covered payroll to the Health Care Reserve Fund from which payments for health care benefits are paid. However, for the fiscal year ended June 30, 2002, the board allocated employer contributions equal to 4.5% of covered payroll to the Health Care Reserve Board. The balance in the Health Care Reserve Fund was \$3.011 billion at June 30, 2002 (the latest information available). For the year ended June 30, 2002, the net health care costs paid by STRS were \$354,697,000. There were 105,300 eligible benefit recipients.

8. JOINTLY GOVERNED ORGANIZATIONS

A. TRI-COUNTY COMPUTER SERVICES ASSOCIATION (TCCSA)

The Tri-County Computer Services Association (TCCSA) is a jointly governed organization comprised of 21 school districts. The jointly governed organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions for member districts. Each of the governments of these districts supports TCCSA based on per pupil charge dependent upon the software package utilized. The TCCSA assembly consists of a superintendent or designated representative from each participating district and a representative from the fiscal agent. TCCSA is governed by a board of directors chosen from the general membership of the TCCSA assembly. The board of directors consists of a representative from the fiscal agent, the chairman of each operating committee, and at least an assembly member from each county from which participating districts are located. Financial information can be obtained by contacting the Treasurer at the Ashland-Wayne County Education Services Center, which serves as fiscal agent, located at 2534 Burbank Road, Wooster, Ohio, 44691. During the year ended June 30, 2003 the District paid approximately \$55,020 to TCCSA for basic service charges.

**NORTHWESTERN LOCAL SCHOOL DISTRICT
WAYNE COUNTY**

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003

9. CONTRACTUAL COMMITMENTS

As of June 30, 2003, the District had contractual purchase commitments as follows:

	<u>Contractual Commitment</u>	<u>Amount Expended</u>	<u>Balance 6/30/03</u>
Adena Corporation			
High School/Elementary School	\$ 6,581,948	\$ 3,428,192	\$ 3,153,756
Track Project	107,475	88,223	19,252
AC Split Bolt			
High School	278,538	113,539	164,999
Bogner Corporation			
Middle School	1,879,634	590,070	1,289,564
Guenther Mechanical			
High School/Elementary School	1,862,829	953,461	909,368
Kidron Electric			
Elementary School	923,133	364,240	558,893
Lepi Enterprises			
Asbestos Abatement	43,161	0	43,161
Rizzi Distributors			
Food Service Equipment	177,230	16,522	160,708
Panzica			
Construction Manager	939,460	486,218	453,242
Schmid Mechanical			
High School/Elementary School	249,923	122,120	127,803
Middle School	1,011,086	210,874	800,212
Strong Electric			
Middle School	689,778	177,961	511,817
Buehrer Group			
Middle School/Elementary School	971,340	794,277	177,063
Waller-Duman			
High School/Elementary School	365,467	0	365,467
Wasserstron			
Middle School	42,268	0	42,268
Dave York Sports			
Track Project	249,470	33,810	215,660
Gene's Refrigerationb			
Track Project	76,000	21,129	54,871
Site Technology			
Track Project	47,788	0	47,788
Southway Fence			
Track Project	20,500	0	20,500
Walter Jones Construction			
Track Project	156,872	83,406	73,466
	<u>\$ 16,673,900</u>	<u>\$ 7,484,042</u>	<u>\$ 9,189,858</u>

**NORTHWESTERN LOCAL SCHOOL DISTRICT
WAYNE COUNTY**

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003

10. STATE SCHOOL FUNDING DECISION

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

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

11. SET ASIDES

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

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

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

	Budget Stabilization Reserve	Capital Improvement Reserve	Textbook Instructional Materials Reserve	Total
Set-Aside Cash Balance as of June 30, 2003	\$ 172,311	\$ 0	\$ 0	\$ 172,311
Set-Aside Carryover Balance as of June 30, 2003	0	0	(129,957)	(129,957)
Current Year Set-Aside Requirement	0	190,915	190,915	381,830
Qualifying Disbursements	0	(359,254)	(263,747)	(623,001)
Total	<u>\$ 172,311</u>	<u>\$ (168,339)</u>	<u>\$ (202,789)</u>	<u>\$ (198,817)</u>
Cash Balance Carried Forward FY 2004	<u>\$ 172,311</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 172,311</u>
Amount to Restrict for Set-Asides				<u>\$ 172,311</u>
Total Restricted Assets				<u>\$ 172,311</u>

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

Rea & Associates, Inc.

ACCOUNTANTS AND BUSINESS CONSULTANTS

August 8, 2003

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

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

We have audited the financial statements of Northwestern Local School District as of and for the year ended June 30, 2003, and have issued our report thereon dated August 8, 2003. We have conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Northwestern Local School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that is required to be reported under *Government Auditing Standards* which is described in the accompanying Schedule of Findings as noted item 2003-001 and 2003-002. We also noted certain immaterial instances of noncompliance that we have reported to management of Northwestern Local School District in a separate letter dated August 8, 2003.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Northwestern Local School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design of operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of Northwestern Local School District in a separate letter dated August 8, 2003.

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

Rea & Associates, Inc.

Rea & Associates, Inc.

ACCOUNTANTS AND BUSINESS CONSULTANTS

August 8, 2003

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

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

Compliance

We have audited the compliance of Northwestern Local School District with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2003. Northwestern Local School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Northwestern Local School District's management. Our responsibility is to express an opinion on Northwestern Local School District's compliance based on our audit.

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

In our opinion, Northwestern Local School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2003.

Internal Control Over Compliance

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

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

Schedule of Expenditures of Federal Awards - Non GAAP Budgetary Basis

We have audited the financial statements of Northwestern Local School District as of and for the year ended June 30, 2003, and have issued our report thereon dated August 8, 2003. Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements of Northwestern Local School District. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

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

Hea & Associates, Inc.

**NORTHWESTERN LOCAL SCHOOL DISTRICT
SCHEDULE OF EXPENDITURE OF FEDERAL AWARDS - NON-GAAP BUDGETARY BASIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

Federal Grantor/ Pass Through Grantor/ Program Title	CFDA Number	Grant Number	Federal Receipts	Federal Disbursements	Non-Cash Transactions
U. S. Department of Education (Passed Through Ohio Department of Education):					
Title I	84.010	C1-S1-01	\$ 152,405	\$ 152,405	\$ 0
Total Title I			152,405	152,405	0
Title VI-B	84.027	6B-SF-02P	138,163	139,603	0
Title VI-B	84.027	6B-ST-02P	1,440		0
Total Title VI-B			139,603	139,603	0
Drug Free Schools	84.186	DR-S1-02	4,000	4,000	0
Drug Free Schools	84.186	DR-S1-01	0	358	0
Total Drug Free Schools			4,000	4,358	0
Title VI	84.298	C2-S1-02	3,885	3,885	0
Total Title VI			3,885	3,885	0
21st Century Learning Grant	84.287		2,545	2,545	0
Total 21st Century Grant			2,545	2,545	0
Title II-D TLCF	84.318		1,849	1,849	0
Total Title II-D			1,849	1,849	0
School Renovation, IDEA, and Technology	84.352A		2,995	2,635	0
Total School Renovatoin			2,995	2,635	0
Title II-A	84.367		36,470	36,995	0
Total Title II-A			36,470	36,995	0
SIG Grant	84.323		7,500	21,276	0
Total SIG Grant			7,500	21,276	0
Total US Department of Eudcation			<u>351,252</u>	<u>365,551</u>	<u>0</u>
Architectural and Transportation Barriers Compliance Board					
E-Rate Fund	88.001		4,317	18,363	0
U. S. Department of Health & Human Services (Passed Through State Department of MRDD):					
Medical Assistance Program/CAFS	93.778		26,541	15,304	0
U. S. Department of Agriculture (Passed Through Ohio Department of Education):					
Nutrition Cluster					
Food Distribution (A) (B)	10.550		58,762	0	58,762
School Breakfast Program (A)	10.553		10,286	10,286	0
National School Lunch Program (A)	10.555		112,055	112,055	0
Summer Food Service Program (A)	10.559		2,769	2,769	0
Total Department of Agriculture - Nutrition Cluster			<u>183,872</u>	<u>125,110</u>	<u>58,762</u>
TOTAL FEDERAL FINANCIAL ASSISTANCE			<u>\$ 565,982</u>	<u>\$ 524,328</u>	<u>\$ 58,762</u>

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

**NORTHWESTERN LOCAL SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 , Section .505
JUNE 30, 2003**

1. SUMMARY OF AUDITOR'S RESULTS

(d) (1) (i)	Type of Financial Statement Opinion	Unqualified
(d) (1) (ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d) (1) (iii)	Was there any reported material non- compliance at the financial statement level (GAGAS)?	Yes
(d) (1) (iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d) (1) (iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
(d) (1) (v)	Type of Major Programs' Compliance Opinion	Unqualified
(d) (1) (vi)	Are there any reportable findings under Section .510?	No
(d) (1) (vii)	Major Programs (list):	Nutrition Cluster CFDA # 10.55*
(d) (1) (viii)	Dollar Threshold: Type A/B Programs	Type A: > \$300,000 Type B: All others
(d) (1) (ix)	Low Risk Auditee?	Yes

**NORTHWESTERN LOCAL SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 , Section .505
JUNE 30, 2003
Page 2**

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

NONCOMPLIANCE

Finding Number	2003-001
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Gaap Reporting

Ohio Admin. Code Section 117-2-03 requires the District to prepare its annual financial report in accordance with generally accepted accounting principles. For the fiscal year 2003, the District prepared its financial statements on the basis of accounting formerly prescribed and permitted by the Auditor of State, which is a basis of accounting other than accounting principles generally accepted in the United States of America. The accompanying financial statements omit assets, liabilities, fund equities, and disclosures that, while material, cannot be determined at this time. The District can be fined and various other administrative remedies may be taken against the District.

Finding Number	2003-002
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Budgetary Process

Ohio Admin. Code Section 5705.41 states that no subdivision or taxing unit is to expend money unless it has been appropriated. During our testing of the budgetary process for fiscal year 2003 it was noted that in the Capital Projects fund the total expenditures exceeded the total appropriations by over 8 million dollars. This under appropriation of school district monies represents a material weakness to the budgetary process of the school district.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None were noted



**Auditor of State
Betty Montgomery**

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140

Telephone 614-466-4514
800-282-0370

Facsimile 614-466-4490

NORTHWESTERN LOCAL SCHOOL DISTRICT

WAYNE COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
NOVEMBER 6, 2003**