

Northwest Local School District

Scioto County

Single Audit

July 1, 2002 through June 30, 2003

Fiscal Year Audited Under GAGAS: 2003

BALESTRA, HARR & SCHERER, CPAS, INC.
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**Auditor of State
Betty Montgomery**

Board of Education
Northwest Local School District

We have reviewed the Independent Auditor's Report of the Northwest Local School District, Scioto County, prepared by Balestra, Harr & Scherer, CPAs, 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 Northwest 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

March 9, 2004

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Northwest Local School District
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Ohio Society of Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

Members of the Board
Northwest Local School District
800 Mohawk Drive
McDermott, Ohio 45652

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Northwest Local School District (the School District), Scioto County, as of and for the year ended June 30, 2003, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the School District, as of June 30, 2003, and the respective changes in financial position thereof, and the respective budgetary comparison for the general fund and Title I fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 10, 2004, on our consideration of the School District's internal control over financial reporting and on 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.

The Management's Discussion and Analysis on pages 3 through 9 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the School District's basic financial statements. The accompanying schedule of federal awards expenditures is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

As described in Note 3 to the basic financial statements, the School District implemented Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, GASB Statement No. 37, *Basic Financial Statements for State and Local Governments: Omnibus*, GASB Statement No. 38, *Certain Financial Statement Note Disclosures*, and GASB Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*.

Balestra, Harr & Scherer, CPAs, Inc.
Balestra, Harr & Scherer, CPAs, Inc.
February 10, 2004

Northwest Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2003

The discussion and analysis of the Northwest Local School District's financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2003. 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 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 the fiscal year 2003 are as follows:

- Net assets of governmental activities decreased \$717,739.
- General revenues accounted for \$10,038,206 in revenue or 67% of all revenues. Program specific revenues in the form of charges for services, grants, and contributions, accounted for \$4,892,399 or 33% of total revenues of \$14,930,605.
- The School District had \$15,648,344 in expenses related to governmental activities; only \$4,892,399 of these expenses were offset by program specific charges for services, grants, contributions, and interest. General revenues of \$10,038,206 offset all but \$717,739 of the cost for these programs.
- The School District has three major funds; the General Fund, the Classroom Facilities Capital Projects Fund and the Title I Special Revenue Fund. The General Fund had \$11,225,656 in revenues and \$11,282,179 in expenditures. The General Fund's balance decreased \$420,680. The Classroom Facilities Capital Projects Fund had \$446,362 in revenues and \$162,923 in expenditures. The Classroom Facilities Capital Projects Fund's balance increased by \$3,333,439 due to the new capital lease inception in the amount of \$3,050,000 made during fiscal year 2003. The Title I Fund had \$619,841 in revenues and \$745,470 in expenditures. The Title I Fund's balance decreased by \$125,629.

USING THIS ANNUAL FINANCIAL REPORT

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

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

Northwest Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2003

Reporting the School District as a Whole

Statement of Net Assets and Statement of Activities

While this document contains information about the large number of funds used by the School District to provide programs and activities for students, the view of the School District as a whole looks at all financial transactions and asks the question, "How did we do financially during fiscal year 2003?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

- In the Statement of Net Assets and the Statement of Activities, all of the School District's programs and services are reported as governmental activities including instruction, support services, operation of non instructional services, and extracurricular activities.

Reporting the School District's Most Significant Funds

Fund Financial Statements

The analysis of the School District's major funds begins on page 7. Fund financial reports provide detailed information about the School District's major funds. The School District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the School District's most significant funds. The School District's major governmental funds are the General Fund, the Classroom Facilities Capital Projects Fund, and the Title I Special Revenue Fund.

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

Northwest Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2003

THE SCHOOL DISTRICT AS A WHOLE

Recall that the Statement of Net Assets provides the perspective of the School District as a whole. Table 1 provides a summary of the School District's net assets for 2003 compared to 2002.

Table 1
Net Assets

| | Governmental Activities | |
|-----------------------------------------|-------------------------|--------------|
| | 2003 | 2002 |
| Assets | | |
| Current and Other Assets | \$8,888,004 | \$5,701,513 |
| Capital Assets | 15,551,394 | 16,345,097 |
| Total Assets | 24,439,398 | 22,046,610 |
| Liabilities | | |
| Long-term Liabilities | 6,270,566 | 3,180,591 |
| Other Liabilities | 3,276,836 | 3,256,284 |
| Total Liabilities | 9,547,402 | 6,436,875 |
| Net Assets | | |
| Invested in Capital Assets, Net of Debt | 13,095,457 | 13,788,618 |
| Restricted | 1,698,393 | 1,145,035 |
| Unrestricted | 98,146 | 676,082 |
| Total Net Assets | \$14,891,996 | \$15,609,735 |

Total net assets of the District as a whole decreased \$717,739.

Table 2 shows the changes in net assets for the fiscal year ended June 30, 2003. Since this is the first year Northwest Local has prepared financial statements following GASB Statement 34, revenue and expense comparisons to fiscal year 2002 are not available. In future years, when prior year information is available, a comparative analysis of government-wide data will be presented.

Northwest Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2003

Table 2
Changes in Net Assets

| | Governmental Activities |
|-----------------------------------------|----------------------------|
| | 2003 |
| Revenues | |
| Program Revenues | |
| Charges for Services and Sales | \$703,795 |
| Operating Grants and Contributions | 3,734,602 |
| Capital Grants and Contributions | 454,002 |
| Total Program Revenues | 4,892,399 |
| General Revenues | |
| Property Taxes | 1,731,714 |
| Grants, Entitlements, & Donations | 8,229,903 |
| Investment Earnings | 57,210 |
| Miscellaneous | 19,379 |
| Total General Revenues | 10,038,206 |
| Total Revenues | 14,930,605 |
| Program Expenses | |
| Instruction: | |
| Regular | 6,226,090 |
| Special | 2,075,614 |
| Vocational | 54,519 |
| Other | 325,883 |
| Support Services: | |
| Pupil | 497,981 |
| Instructional Staff | 811,640 |
| Board of Education | 116,313 |
| Administration | 955,219 |
| Fiscal | 241,397 |
| Operation and Maintenance of Plant | 1,810,552 |
| Pupil Transportation | 1,208,580 |
| Central | 74,880 |
| Operation of Non-Instructional Services | 620,299 |
| Extracurricular Activities | 336,723 |
| Interest and Fiscal Charges | 292,654 |
| Total Expenses | 15,648,344 |
| Increase in Net Assets | (717,739) |
| Net Assets, Beginning of Year | 15,609,735 |
| Net Assets, End of Year | \$ 14,891,996 |

Northwest Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2003

The Statement of Activities shows the cost of program services and the charges for services, grants, contributions, and interest earnings offsetting those services. Table 3 shows the total cost of services and the net cost of services. That is, it identifies the cost of those services supported by tax revenue and unrestricted state entitlements. Comparisons to 2002 have not been made since they are not available.

Table 3
Governmental Activities

| | Total Cost of Services | Net Cost of Services |
|-----------------------------------------|---------------------------|-------------------------|
| | 2003 | 2003 |
| Program Expenses | | |
| Instruction: | | |
| Regular | \$6,226,090 | \$5,224,342 |
| Special | 2,075,614 | 713,755 |
| Vocational | 54,519 | 52,765 |
| Other | 325,883 | 180,906 |
| Support Services: | | |
| Pupil | 497,981 | 373,387 |
| Instructional Staff | 811,640 | 546,394 |
| Board of Education | 116,313 | 112,544 |
| Administration | 955,219 | 924,733 |
| Fiscal | 241,397 | 233,344 |
| Operation and Maintenance of Plant | 1,810,552 | 1,361,642 |
| Pupil Transportation | 1,208,580 | 484,931 |
| Central | 74,880 | 72,828 |
| Operation of Non-Instructional Services | 620,299 | 31,575 |
| Extracurricular Activities | 336,723 | 190,403 |
| Interest and Fiscal Charges | 292,654 | 252,396 |
| Total | \$15,648,344 | \$10,755,945 |

THE SCHOOL DISTRICT FUNDS

The School District's major funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$14,512,057 and expenditures of \$14,678,156. As previously discussed, the School District remains financially stable in terms of healthy carryovers, our ability to pay bills, and no current operating levy needs.

Northwest Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2003

General Fund Budgeting Highlights

The School District's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The most significant budgeted fund is the General Fund. During the course of fiscal year 2003, the School District amended its General Fund budget, but not significantly.

For the General Fund, budget basis revenue was \$11,253,524, below original estimates of \$11,430,561. Of this \$177,037 difference, most was due to less money anticipated being received in Intergovernmental than originally projected. For the General Fund, budget basis expenditures were \$12,330,507, above original estimates of \$11,444,720. This was due to transfers out not being included in the original budget.

The School District's ending unobligated General Fund balance was \$1,336,685.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal year 2003, the School District had \$15,551,394 invested in land, buildings, furniture and equipment, vehicles, and construction in progress. For additional information on capital assets, see Note 8 to the basic financial statements. Table 4 shows fiscal year 2003 balances compared to 2002.

Table 4
Capital Assets
(Net of Depreciation)

| | Governmental Activities | |
|----------------------------|-------------------------|--------------|
| | 2003 | 2002 |
| Land | \$189,530 | \$189,530 |
| Land Improvements | 121,199 | 128,733 |
| Buildings and Improvements | 13,459,874 | 13,863,345 |
| Furniture and Equipment | 1,590,928 | 2,067,892 |
| Vehicles | 26,940 | 95,597 |
| Books | 0 | 0 |
| Construction in Progress | 162,923 | 0 |
| Totals | \$15,551,394 | \$16,345,097 |

Changes in capital assets from the prior year resulted from additions, disposals and depreciation.

Northwest Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2003

Debt

At June 30, 2003, the School District had School Facilities General Obligations Refunding Bonds outstanding of \$2,276,153. The bonds were issued for school construction. The District also had capital lease obligations outstanding of \$3,169,713. For additional information on debt, see note 14 to the basic financial statements.

ECONOMIC FACTORS

Northwest Local School District is financially stable. As the preceding information shows, the School District depends upon the State School Foundation Program. Northwest Local School District must maintain its current spending habits to maintain its healthy financial situation. The School District is in a low economic growth area, so dependence on local tax revenue must be minimized.

CONTACTING THE SCHOOL DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizen's, taxpayers, and investors and creditors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Karen Morrow, Treasurer at Northwest Local School District, 800 Mohawk Drive, McDermott, Ohio 45652.

Northwest Local School District
Statement of Net Assets
June 30,2003

| | Governmental Activities |
|-------------------------------------------------|----------------------------|
| Assets | |
| Equity in Pooled Cash and Cash Equivalents | \$3,015,199 |
| Cash and Cash Equivalents with Fiscal Agents | 3,060,701 |
| Accrued Interest Receivable | 3,139 |
| Materials and Supplies Inventory | 27,243 |
| Intergovernmental Receivable | 838,065 |
| Prepaid Items | 64,686 |
| Property Taxes Receivable | 1,791,742 |
| Restricted Assets: | |
| Equity in Pooled Cash and Cash Equivalents | 87,229 |
| Nondepreciable Capital Assets | 352,453 |
| Depreciable Capital Assets, Net | 15,198,941 |
| <i>Total Assets</i> | 24,439,398 |
| Liabilities | |
| Accounts Payable | 108,928 |
| Accrued Wages and Benefits Payable | 1,277,355 |
| Accrued Interest Payable | 60,071 |
| Matured Compensated Absences Payable | 20,000 |
| Deferred Revenue | 1,473,228 |
| Intergovernmental Payable | 337,254 |
| Long-Term Liabilities: | |
| Due Within One Year | 433,479 |
| Due In More Than One Year | 5,837,087 |
| <i>Total Liabilities</i> | 9,547,402 |
| Net Assets | |
| Invested in Capital Assets, Net of Related Debt | 13,095,457 |
| Restricted for: | |
| Capital Projects | 286,363 |
| Debt Service | 549,257 |
| Nonexpendable | 11,846 |
| Set Asides | 87,229 |
| Other Purposes | 763,698 |
| Unrestricted | 98,146 |
| <i>Total Net Assets</i> | \$14,891,996 |

See accompanying notes to the basic financial statements

Northwest Local School District
Statement of Activities
For the Fiscal Year Ended June 30, 2003

| | Expenses | Program Revenues | | | Net (Expense) |
|-----------------------------------------|---------------------|--------------------------------|------------------------------------|----------------------------------|-----------------------------------|
| | | Charges for Services and Sales | Operating Grants and Contributions | Capital Grants and Contributions | Revenue and Changes in Net Assets |
| Governmental Activities | | | | | Governmental Activities |
| Instruction: | | | | | |
| Regular | \$6,226,090 | \$250,897 | \$664,591 | \$86,260 | (\$5,224,342) |
| Special | 2,075,614 | 128,436 | 1,233,423 | 0 | (713,755) |
| Vocational | 54,519 | 1,754 | 0 | 0 | (52,765) |
| Other | 325,883 | 21,905 | 123,072 | 0 | (180,906) |
| Support Services: | | | | | |
| Pupil | 497,981 | 26,136 | 98,458 | 0 | (373,387) |
| Instructional Staff | 811,640 | 45,630 | 196,916 | 22,700 | (546,394) |
| Board of Education | 116,313 | 3,769 | 0 | 0 | (112,544) |
| Administration | 955,219 | 30,486 | 0 | 0 | (924,733) |
| Fiscal | 241,397 | 7,649 | 404 | 0 | (233,344) |
| Operation and Maintenance of Plant | 1,810,552 | 54,638 | 49,230 | 345,042 | (1,361,642) |
| Pupil Transportation | 1,208,580 | 35,113 | 688,536 | 0 | (484,931) |
| Central | 74,880 | 2,052 | 0 | 0 | (72,828) |
| Operation of Non-Instructional Services | 620,299 | 71,820 | 516,904 | 0 | (31,575) |
| Extracurricular Activities | 336,723 | 23,248 | 123,072 | 0 | (190,403) |
| Interest and Fiscal Charges | 292,654 | 262 | 39,996 | 0 | (252,396) |
| Totals | <u>\$15,648,344</u> | <u>\$703,795</u> | <u>\$3,734,602</u> | <u>\$454,002</u> | <u>(10,755,945)</u> |
| General Revenues | | | | | |
| Property Taxes Levied for: | | | | | |
| | | | | | 1,443,366 |
| | | | | | 261,677 |
| | | | | | 26,671 |
| | | | | | 8,229,903 |
| | | | | | 57,210 |
| | | | | | 19,379 |
| | | | | | <u>10,038,206</u> |
| | | | | | (717,739) |
| | | | | | <u>15,609,735</u> |
| | | | | | <u>\$14,891,996</u> |

See accompanying notes to the basic financial statements

Northwest Local School District

Balance Sheet

Governmental Funds

June 30,2003

| | General | Classroom Facilities | Title I | Other Governmental Funds | Total Governmental Funds |
|----------------------------------------------|--------------------|-------------------------|------------------|--------------------------------|--------------------------------|
| Assets | | | | | |
| Equity in Pooled Cash and Cash Equivalents | \$1,535,861 | \$272,603 | \$41,699 | \$1,165,036 | \$3,015,199 |
| Cash and Cash Equivalents with Fiscal Agents | 0 | 3,060,701 | 0 | 0 | 3,060,701 |
| Receivables: | | | | | |
| Property Taxes | 1,430,768 | 0 | 0 | 360,974 | 1,791,742 |
| Interest | 2,764 | 135 | 0 | 240 | 3,139 |
| Interfund Receivable | 439,983 | 0 | 0 | 0 | 439,983 |
| Intergovernmental | 0 | 0 | 500,192 | 337,873 | 838,065 |
| Prepaid Items | 64,686 | 0 | 0 | 0 | 64,686 |
| Materials and Supplies Inventory | 18,672 | 0 | 0 | 8,571 | 27,243 |
| Restricted Assets: | | | | | |
| Equity in Pooled Cash and Cash Equivalents | 87,229 | 0 | 0 | 0 | 87,229 |
| Total Assets | \$3,579,963 | \$3,333,439 | \$541,891 | \$1,872,694 | \$9,327,987 |
| Liabilities and Fund Balances | | | | | |
| Liabilities | | | | | |
| Accounts Payable | \$81,811 | \$0 | \$0 | \$27,117 | \$108,928 |
| Accrued Wages and Benefits Payable | 1,016,272 | 0 | 96,454 | 164,629 | 1,277,355 |
| Interfund Payable | 0 | 0 | 281,640 | 158,343 | 439,983 |
| Matured Compensated Absences Payable | 20,000 | 0 | 0 | 0 | 20,000 |
| Intergovernmental Payable | 100,757 | 0 | 10,092 | 15,889 | 126,738 |
| Deferred Revenue | 1,324,978 | 0 | 231,390 | 628,705 | 2,185,073 |
| Total Liabilities | 2,543,818 | 0 | 619,576 | 994,683 | 4,158,077 |
| Fund Balances | | | | | |
| Reserved for Encumbrances | 269,308 | 0 | 2,223 | 12,708 | 284,239 |
| Reserved for Property Taxes | 105,790 | 0 | 0 | 26,621 | 132,411 |
| Reserved for Budget Stabilization | 87,229 | 0 | 0 | 0 | 87,229 |
| Reserved for Contributions | 0 | 0 | 0 | 12,000 | 12,000 |
| Unreserved, Undesignated, Reported in: | | | | | |
| General Fund | 573,817 | 0 | 0 | 0 | 573,817 |
| Special Revenue Funds | 0 | 0 | (79,908) | 334,042 | 254,134 |
| Debt Service Funds | 0 | 0 | 0 | 490,790 | 490,790 |
| Capital Projects Funds | 0 | 3,333,439 | 0 | 1,724 | 3,335,163 |
| Permanent Fund | 0 | 0 | 0 | 126 | 126 |
| Total Fund Balances | 1,036,144 | 3,333,439 | (77,685) | 878,011 | 5,169,909 |
| Total Liabilities and Fund Balances | \$3,579,962 | \$3,333,439 | \$541,891 | \$1,872,694 | \$9,327,986 |

See accompanying notes to the basic financial statements

Northwest Local School District
 Reconciliation of Total Governmental Fund Balances to
 Net Assets of Governmental Activities
 June 30, 2003

Total Governmental Fund Balances \$ 5,169,909

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. 15,551,394

Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds.

| | | |
|-------------------|---------|--|
| Taxes | 186,103 | |
| Intergovernmental | 525,742 | |
| | 525,742 | |

| | | |
|-------|--|---------|
| Total | | 711,845 |
|-------|--|---------|

Intergovernmental payable includes contractually required pension contributions not expected to be paid with expendable available financial resources and therefore not reported in the funds (210,515)

Long-Term Liabilities and related interest, including bonds, capital lease obligations, long-term portion of compensated absences are not due and payable in the current period and therefore are not reported in the funds.

| | | |
|---------------------------|-------------|--|
| Accrued Interest Payable | (60,071) | |
| Compensated Absences | (824,700) | |
| Capital Lease Obligations | (3,169,713) | |
| General Obligation Bonds | (2,276,153) | |
| | (6,330,637) | |

| | | |
|-------|--|-------------|
| Total | | (6,330,637) |
|-------|--|-------------|

Net Assets of Governmental Activities \$ 14,891,996

See accompanying notes to the basic financial statements

Northwest Local School District
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2003

| | General | Classroom Facilities | Title I | Other Governmental Funds | Total Governmental Funds |
|--------------------------------------------------------------------|--------------------|-------------------------|-------------------|--------------------------------|--------------------------------|
| Revenues | | | | | |
| Taxes | \$1,337,437 | \$0 | \$0 | \$296,686 | \$1,634,123 |
| Intergovernmental | 9,462,657 | 435,000 | 619,841 | 1,576,296 | 12,093,794 |
| Investment Earnings | 44,215 | 11,362 | 0 | 1,633 | 57,210 |
| Customer Sales and Services | 336,209 | 0 | 0 | 211,042 | 547,251 |
| Tuition and Fees | 25,759 | 0 | 0 | 0 | 25,759 |
| Extracurricular Activities | 0 | 0 | 0 | 130,784 | 130,784 |
| Gifts and Donations | 0 | 0 | 0 | 3,757 | 3,757 |
| Miscellaneous | 19,379 | 0 | 0 | 0 | 19,379 |
| <i>Total Revenues</i> | <u>11,225,656</u> | <u>446,362</u> | <u>619,841</u> | <u>2,220,198</u> | <u>14,512,057</u> |
| Expenditures | | | | | |
| Current: | | | | | |
| Instruction: | | | | | |
| Regular | 5,025,867 | 0 | 0 | 799,612 | 5,825,479 |
| Special | 987,195 | 0 | 657,193 | 139,141 | 1,783,529 |
| Vocational | 53,210 | 0 | 0 | 0 | 53,210 |
| Other | 146,138 | 0 | 0 | 167,337 | 313,475 |
| Support Services: | | | | | |
| Pupil | 370,710 | 0 | 9,492 | 93,034 | 473,236 |
| Instructional Staff | 553,266 | 0 | 65,029 | 162,149 | 780,444 |
| Board of Education | 116,998 | 0 | 0 | 0 | 116,998 |
| Administration | 901,365 | 0 | 2,102 | 478 | 903,945 |
| Fiscal | 227,555 | 0 | 0 | 1,773 | 229,328 |
| Operation and Maintenance of Plant | 1,471,540 | 0 | 11,517 | 56,032 | 1,539,089 |
| Pupil Transportation | 1,069,526 | 0 | 0 | 0 | 1,069,526 |
| Central | 61,980 | 0 | 0 | 10,500 | 72,480 |
| Operation of Non-Instructional Services | 0 | 0 | 137 | 599,451 | 599,588 |
| Extracurricular Activities | 193,769 | 0 | 0 | 148,861 | 342,630 |
| Capital Outlay | 19,080 | 162,923 | 0 | 0 | 182,003 |
| Debt Service: | | | | | |
| Principal | 73,581 | 0 | 0 | 180,000 | 253,581 |
| Interest and Fiscal Charges | 10,399 | 0 | 0 | 129,216 | 139,615 |
| <i>Total Expenditures</i> | <u>11,282,179</u> | <u>162,923</u> | <u>745,470</u> | <u>2,487,584</u> | <u>14,678,156</u> |
| <i>Excess of Revenues Over (Under) Expenditures</i> | <u>(56,523)</u> | <u>283,439</u> | <u>(125,629)</u> | <u>(267,386)</u> | <u>(166,099)</u> |
| Other Financing Sources | | | | | |
| Inception of Capital Lease | 0 | 3,050,000 | 0 | 0 | 3,050,000 |
| Proceeds from Sale of Capital Assets | 251 | 0 | 0 | 0 | 251 |
| Operating Transfers In | 0 | 0 | 0 | 364,408 | 364,408 |
| Operating Transfers Out | (364,408) | 0 | 0 | 0 | (364,408) |
| <i>Total Other Financing Sources</i> | <u>(364,157)</u> | <u>3,050,000</u> | <u>0</u> | <u>364,408</u> | <u>3,050,251</u> |
| <i>Net Change in Fund Balance</i> | <u>(420,680)</u> | <u>3,333,439</u> | <u>(125,629)</u> | <u>97,022</u> | <u>2,884,152</u> |
| <i>Fund Balances Beginning of Year - Restated (See Note 3)</i> | <u>1,456,824</u> | <u>0</u> | <u>47,944</u> | <u>780,989</u> | <u>2,285,757</u> |
| <i>Fund Balances End of Year</i> | <u>\$1,036,144</u> | <u>\$3,333,439</u> | <u>(\$77,685)</u> | <u>\$878,011</u> | <u>\$5,169,909</u> |

See accompanying notes to the basic financial statements

Northwest Local School District
 Reconciliation of the Statement of Revenues, Expenditures and Changes
 in Fund Balances of Governmental Funds to the Statement of Activities
 For the Fiscal Year Ended June 30, 2003

Net Change in Fund Balances - Total Governmental Funds \$ 2,884,152

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

Governmental funds report capital outlays as expenditures. However in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.

| | | |
|---------------------------|-------------|-----------|
| Capital Asset Additions | 272,652 | |
| Current Year Depreciation | (1,057,996) | |
| Total | (785,344) | (785,344) |

Governmental funds only report the disposal of assets to the extent proceeds are received from the sale. In the statement of activities a gain or loss is reported for each disposal. This is the amount of the loss on the disposal of fixed assets.

| | | |
|--------------------------------------|---------|---------|
| Proceeds from Sale of Capital Assets | (251) | |
| Loss on Disposal of Fixed Assets | (8,108) | |
| Total | (8,359) | (8,359) |

New capital lease obligations in the statement of revenues, expenditures and changes in fund balances that are reported as other financing sources are not reported as revenues in the statement of activities. (3,050,000)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.

| | | |
|-------------------|---------|---------|
| Taxes | 97,592 | |
| Intergovernmental | 320,956 | |
| Total | 418,548 | 418,548 |

Repayment of bond principal are expenditures in the governmental funds, but the repayment reduces liabilities in the statement of net assets and does not result in an expense in the statement of activities. 180,000

Repayment of capital leases obligations are expenditures in the governmental funds, but the repayment reduces liabilities in the statement of net assets and does not result in an expense in the statement of activities. 73,581

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

| | | |
|---------------------------------------|-----------|-----------|
| Increase in Compensated Absences | (195,775) | |
| Increase in Interest Payable | (55,258) | |
| Increase in Intergovernmental Payable | (81,503) | |
| Increase in Accreted Debt | (97,781) | |
| Total | (430,317) | (430,317) |

Net Change in Net Assets of Governmental Activities \$ (717,739)

See accompanying notes to the basic financial statements

Northwest Local School District
Statement of Revenues, Expenditures and Changes in Fund Balances
General and Title I Funds
For the Fiscal Year Ended June 30, 2003

| | General Fund | | | Variance with Final Budget: Positive (Negative) |
|--------------------------------------|-------------------------|---------------------|--------------------|--------------------------------------------------------------------|
| | Budgeted Amounts | | Actual | |
| | Original Budget | Final Budget | | |
| Total Revenues and Other Sources | \$11,430,561 | \$11,253,524 | \$11,253,524 | \$0 |
| Total Expenditures and Other Uses | <u>11,444,720</u> | <u>12,330,508</u> | <u>12,330,507</u> | <u>1</u> |
| Net Change in Fund Balance | (14,159) | (1,076,984) | (1,076,983) | 1 |
| Fund Balance, July 1, 2002 | 2,222,050 | 2,222,050 | 2,222,050 | 0 |
| Prior Year Encumbrances Appropriated | <u>191,618</u> | <u>191,618</u> | <u>191,618</u> | <u>0</u> |
| Fund Balance, June 30, 2003 | <u>\$2,399,509</u> | <u>\$1,336,684</u> | <u>\$1,336,685</u> | <u>\$1</u> |
| | Title I Fund | | | |
| | Budgeted Amounts | | Actual | Variance with Final Budget: Positive (Negative) |
| | Original Budget | Final Budget | | |
| Total Revenues and Other Sources | \$983,946 | \$886,582 | \$886,582 | \$0 |
| Total Expenditures and Other Uses | <u>974,692</u> | <u>847,106</u> | <u>847,106</u> | <u>0</u> |
| Net Change in Fund Balance | 9,254 | 39,476 | 39,476 | 0 |
| Fund Balance, July 1, 2002 | (4,152) | (4,152) | (4,152) | 0 |
| Prior Year Encumbrances Appropriated | <u>4,152</u> | <u>4,152</u> | <u>4,152</u> | <u>0</u> |
| Fund Balance, June 30, 2003 | <u>\$9,254</u> | <u>\$39,476</u> | <u>\$39,476</u> | <u>\$0</u> |

See accompanying notes to the basic financial statements.

Northwest Local School District
Statement of Fiduciary Assets and Liabilities
Agency Funds
June 30,2003

| | |
|--------------------------------------------|------------------------|
| Assets | |
| Equity in Pooled Cash and Cash Equivalents | <u>\$25,365</u> |
| Total Assets | <u><u>25,365</u></u> |
| | |
| Liabilities | |
| Undistributed Monies | <u>25,365</u> |
| Total Liabilities | <u><u>\$25,365</u></u> |

See accompanying notes to the basic financial statements

NORTHWEST LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

The Northwest 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 was established in 1957 through the consolidation of existing land areas and school districts. The School District serves an area of approximately 156 square miles. It is located in Scioto County, and includes all of the Village of Rarden and Otway and portions of Brush, Rush, Union, Morgan, and Rarden Townships. It is staffed by 68 non-certificated employees, 135 certificated full-time teaching personnel who provide services to 1,751 students and other community members. The School District currently operates 4 instructional buildings, 1 administrative building, and 1 garage.

Reporting Entity:

A reporting entity is comprised of the primary government, component units, and other organizations that are included to insure that the financial statements are not misleading. The primary government of the School District consists of all funds, departments, boards, and agencies that are not legally separate from the School District. For Northwest Local School District, this includes general operations, food service, 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 following entities which perform activities within the School District's boundaries for the benefit of its residents are excluded from the accompanying financial statements because the School District is not financially accountable for these entities nor are they fiscally dependent on the School District.

- ▶ Parent Teacher Organizations
- ▶ Booster Associations
- ▶ Alumni Associations

The School District participates in three organizations, two of which are defined as jointly governed organizations and one as a public entity shared risk pool. These organizations are the South Central Ohio Computer Association (SCOCA), the Coalition of Rural and Appalachian Schools, and the Scioto County Schools Council. These organizations are presented in Notes 16 and 17 to the general-purpose financial statements.

NORTHWEST LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies followed in the preparation of these financial statements are summarized below. These policies conform to accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units prescribed in the statements issued by the Governmental Accounting Standards Board (GASB) and other recognized authoritative sources.

Fund Accounting

The School District's accounts are maintained on the basis of funds, each of which is considered a separate accounting entity. Fund accounting is designed to demonstrate legal compliance and to aid management by segregating transactions related to specific School District's functions or activities. The operation of each fund is accounted for within a separate set of self-balancing accounts.

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 following is the School District's major governmental funds:

General Fund

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

Title I Fund

The Title I Fund is a fund provided to account for monies received and expended for special education for math and reading to elementary students.

The other governmental funds of the School District account for grants and other resources, debt service, and capital projects, whose use is restricted to a particular purpose.

Fiduciary Funds

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds and agency funds. The School District's only fiduciary funds are agency funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. In accordance with GASB 34, fiduciary funds are not included in the government-wide statements.

Basis of Presentation

The School District's basic financial statements consist of government-wide statements, including a statement of net assets and a statement of activities, and fund financial statements which provide a more detailed level of financial information.

NORTHWEST LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Government-wide Financial Statements

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

The statement of net assets presents the financial condition of governmental activities of the School District at year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the School District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues of the School District. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the School District.

Fund Financial Statements

During the year, the School District segregates transactions related to certain School District functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the School District at this more detailed level. The focus of fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

Measurement Focus

Government-wide Financial Statements - The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the School District are included on the statement of net assets. The Statement of Activities presents increases (i.e. revenues) and decreases (i.e. expenses) in total net assets.

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

NORTHWEST LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2003

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. The fund financial statements are prepared using either the modified accrual basis of accounting for governmental funds or the accrual basis of accounting for fiduciary funds. Differences in the accrual and modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures.

Revenues – Exchange and Non-exchange Transactions

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. "Measurable" means the amount of the transaction can be determined, and "available" means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the School District, available means expected to be received within 60 days of year-end.

Nonexchange 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 expenditures requirements, in which the resources are provided to the School District on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at year-end: property taxes available as an advance, investment earnings and grants.

Deferred Revenue

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Property taxes for which there is an enforceable legal claim as of June 30, 2003, but which were levied to finance fiscal year 2004 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue. On governmental fund financial statements, receivables that will not be collected within the available period have also been reported as deferred revenue.

NORTHWEST LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Expenses/Expenditures

On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported in the operating statement as an expense with a like amount reported as donated commodities revenue.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable, except for (1) principal and interest on general long-term debt and capital lease obligations, which is recorded when due, (2) the costs of accumulated unpaid vacation, personal leave and sick leave are reported as fund liabilities in the period in which they will be liquidated with available financial resources rather than in the period earned by employees, (3) the costs related to the workers compensation retrospective rating program are reported as fund liabilities in the period in which they will be liquidated with available financial resources rather than in the period the costs were incurred. Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds.

Budgetary Process

All funds, other than the agency funds are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the appropriation resolution and the certificate of estimated resources which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amounts that the Board of Education may appropriate. The appropriation resolution is the Board's authorization to spend resources and sets annual limits on expenditures plus encumbrances at a level of control selected by the Board. The legal level of control has been established by the Board of Education at the fund level. The Treasurer has been authorized to allocate Board appropriations to the function and object level within each fund.

The certificate of estimated resources may be amended during the year if projected increases or decreases in revenue are identified by the School District Treasurer. The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts in the certificate when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts in the final amended certificate issued during fiscal year 2003.

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

NORTHWEST LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2003

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Encumbrances

Encumbrance accounting is utilized by the School District for all funds in the normal course of operations for purchase orders and contract related expenditures. An encumbrance is a reserve on the available spending authority due to a commitment for a future expenditure and does not represent a liability. On the fund financial statements encumbrances outstanding at fiscal year-end are reported as a reservation of fund balance for subsequent year expenditures for governmental funds. A reserve for encumbrances is not reported on the government-wide financial statements. Encumbrances are reported as part of expenditures/expenses on a non-GAAP budgetary basis in the Required Supplemental Information.

Cash and Investments

During fiscal year 2003, the School District invested funds in repurchase agreements, government obligations, and the State Treasury Asset Reserve of Ohio (STAR Ohio). Nonparticipating investment contracts such as repurchase agreements and nonnegotiable certificates of deposit are reported at cost. STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on June 30, 2003.

Cash received by the School District is deposited into one of several bank accounts with individual fund balance integrity maintained. Balances of all funds are maintained in these accounts or are temporarily used to purchase certificates of deposit or investments. All investment earnings accrue to the General Fund except those specifically related to those funds deemed appropriate according to Board of Education policy. Interest earned amounted to \$57,210 in which \$44,215 was recorded in the General Fund; \$11,362 was recorded in the Classroom Facilities Capital Projects Fund; and \$1,633 was recorded in the non-major funds.

The School District records all its investments at fair value. For presentation on the balance sheet, investments of the cash management pool are considered to be cash equivalents.

Investments with original maturities of three months or less at the time they are purchased by the School District are reported as cash equivalents.

Inventory

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

On fund financial statements, inventories of governmental funds are stated at cost. For all funds, 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 an expenditure when purchased.

NORTHWEST LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2003

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets and Depreciation:

All capital assets of the School District are general capital assets that are associated with governmental activities. General capital assets result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed 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. The School District does not capitalize interest.

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

| <u>Description</u> | <u>Estimated Lives</u> |
|---------------------------|------------------------|
| Land Improvements | 10-25 years |
| Building and Improvements | 10-50 years |
| Furniture and Equipment | 5-20 years |
| Vehicles | 7-15 years |

Estimated historical costs for governmental activities capital asset values were initially determined on October 7, 2002 by utilizing the services of Valuation Engineers, Inc. All capital assets had estimated historical costs developed by indexing estimated current costs back to the estimated year of acquisition.

Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "Interfund Receivables" and "Interfund Payables." These amounts are eliminated in the governmental activities column of the statement of net assets.

Compensated Absences

Vacation and personal leave benefits are accrued as a liability as the benefits are earned if the employee's rights to receive compensation are attributable to services already rendered and it is probable that the School District will compensate its employees for the benefits through paid time off or some other means. Sick leave benefits are accrued as a liability using the termination payment method.

NORTHWEST LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Compensated Absences (Continued)

The liability includes the employees who are currently eligible to receive severance benefits and those the School District has identified as probable of receiving payment in the future. The School District records an accrual for sick leave to the extent it is probable that benefits will result in termination payments. The accrual amount is based upon an estimate of the School District's past experience of making termination payments.

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

On the governmental fund financial statements, compensated absences are recognized as liabilities and expenditures as payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the account "matured compensated absences payable" in the fund from which the employee will be paid.

Accrued Liabilities and Long-Term Obligations

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

In general, governmental fund payables and accrued liabilities, that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, claims and judgements, compensated absences, contractually required pension contributions and special termination benefits that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment in the current year. Bonds, long-term loans, and capital leases are recognized as a liability on the government-wide financial statements when due.

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consist of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvements 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.

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

NORTHWEST LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Balance Reserves

Reserved fund balances indicate that portion of fund equity, which is not available for current appropriation or is legally segregated for a specific use. Fund balances are reserved for encumbrances, budget stabilization, contributions, and property tax revenue reserved by the Board for future year's appropriations. The reserve for property tax 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 state statute. See Note 18 for more information on the set-asides. The unreserved, undesignated portions of fund equity reflected for Governmental Funds are available for use within the specific purpose of those funds.

Restricted Assets

Assets are reported as restricted when limitations on their use change the nature or normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, laws of other governments, or imposed by enabling legislation. Restricted assets in the General Fund include amounts required by state statute to be set aside for budget stabilization. See Note 18 for additional information regarding set-asides.

Interfund Transactions

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

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 on the financial statements and accompanying notes. Actual results may differ from those estimates.

NOTE 3 - CHANGE IN ACCOUNTING PRINCIPLE AND RESTATEMENT OF FUND BALANCE

The School District implemented Governmental Accounting Standards Board (GASB) Statement No. 34, "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local governments", GASB Statement No. 37, "Basic Financial Statements for State and Local Governments: Omnibus", GASB Statement No. 38, "Certain Financial Statement Note Disclosures", and GASB Interpretation No. 6, "Recognition and Measurement of Certain Liabilities and Expenditures in Government Fund Financial Statements." GASB Statement No. 34 creates new basic financial statements for reporting on the School District's financial activities. The financial statements now include government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Non-major funds are presented in total in one column.

NORTHWEST LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2003

NOTE 3 - CHANGE IN ACCOUNTING PRINCIPLE AND RESTATEMENT OF FUND BALANCE (Continued)

The implementation of these Statements required that certain adjustments be recorded to the June 30, 2003, fund balances of major and non-major funds of the School District as they were previously reported. The transition from governmental fund balance to net assets of the governmental activities is also presented.

| | General | Classroom Facilities | Title I | Non-major | Total |
|---------------------------------------------------|-------------|-------------------------|----------|-----------|---------------------|
| Fund Balances, June 30, 2002 | \$1,410,855 | \$0 | \$44,808 | \$863,051 | 2,318,714 |
| Adjustments necessary to comply with GAAP | 45,969 | 0 | 3,136 | (82,062) | (32,957) |
| Restated Fund Balances, June 30, 2002 | \$1,456,824 | \$0 | \$47,944 | \$780,989 | 2,285,757 |
| Adjustments necessary to comply with GASB 34 | | | | | 13,323,978 |
| Governmental Activities Net Assets, June 30, 2002 | | | | | <u>\$15,609,735</u> |

NOTE 4 - ACCOUNTABILITY

Accountability

At June 30, 2003, the following funds have deficit fund balances which were created by the application of accounting principles generally accepted in the United States of America.

| Fund | Deficit |
|-------------------------|------------|
| Fund 006 – Food Service | (\$16,320) |
| Fund 447 – DPIA | (67,444) |
| Fund 516 – Title VI-B | (73,008) |
| Fund 572 – Chapter I | (77,685) |
| Fund 573 – Chapter 2 | (6,585) |
| Fund 584 – Drug Free | (860) |
| Fund 590 – Title II-A | (23,908) |

The General Fund provides transfers to cover deficit balances; however, this is done when cash is needed rather than when accruals occur.

NORTHWEST LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

NOTE 5 - BUDGET TO GAAP RECONCILIATION

While the District is reporting financial position, results of operations and changes in fund balance/retained earnings on the basis of accounting principles generally accepted in the United States of America (GAAP), the budgetary basis, as provided by law, and described above, is based upon accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The Combined Statement of Revenues, Expenditures and Changes in Fund Balances - Budget (Non-GAAP Basis) and Actual, General and Title I Funds 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/expenses 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 for governmental fund types (GAAP basis).

The following tables summarize the adjustments necessary to reconcile the GAAP and budgetary basis statements for the General Fund and the Title I Fund (a major Special Revenue Fund):

| | Net Change in Fund Balance | |
|----------------------|----------------------------|-----------------|
| | General | Title I |
| GAAP Basis | (\$420,680) | (\$125,629) |
| Adjustments: | | |
| Revenue Accruals | 27,617 | 266,741 |
| Expenditure Accruals | (397,511) | (99,413) |
| Encumbrances | (286,409) | (2,223) |
| Budget Basis | <u>(\$1,076,983)</u> | <u>\$39,476</u> |

NOTE 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.

NORTHWEST LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

NOTE 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 time certificates of deposit maturing not more than one year from the date of deposit, or by savings accounts, including passbook accounts.

Protection of the 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 may be deposited or invested in the following securities:

1. United States treasury notes, bills, bonds, or any other obligation or security issued by the United States treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by the federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) 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' acceptance 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; and
8. Under limited circumstances, 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 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 qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

At fiscal year end, the School District had \$300 in undeposited cash on hand.

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*.

NORTHWEST LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2003

NOTE 5 – DEPOSITS AND INVESTMENTS (Continued)

Deposits: At fiscal year end, the carrying amount of the School District's deposits was \$2,831,953 and the bank balance was \$2,927,160. Of the bank balance, \$100,000 was covered by federal depository insurance. The remaining balance was uninsured and uncollateralized. Although the securities serving as collateral were held by the pledging institution in the pledging institution'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: The School District's investments are required to be categorized 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 securities are held by the School District or its agent in the School District's name. Category 2 includes uninsured and unregistered investments which 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. The School District's investments in STAR Ohio, an investment pool operated by the Ohio State Treasurer, are unclassified investments since they are not evidenced by securities that exist in physical or book entry form.

| | Category 2 | Category 3 | Unclassified | Carrying / Fair Value |
|------------------------|--------------------|------------------|-----------------|--------------------------|
| Government Obligations | \$3,060,701 | \$0 | \$0 | \$3,060,701 |
| Repurchase Agreements | 0 | 272,727 | 0 | 272,727 |
| STAR Ohio | 0 | 0 | 22,813 | 22,813 |
| Totals | \$3,060,701 | \$272,727 | \$22,813 | \$3,356,241 |

The classification of cash and cash equivalents and investments on the combined financial statements is based on criteria set forth in GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Fund and Governmental Entities that use Proprietary Fund Accounting*.

A reconciliation between the classifications of cash and cash equivalents and investments on the combined financial statements and the classifications of deposits and investments presented above per GASB Statement No. 3 is as follows:

| | Cash and Cash Equivalents/Deposits | Investments |
|-----------------------------|---------------------------------------|--------------------|
| <i>GASB Statement No. 9</i> | \$6,188,494 | \$0 |
| Cash on Hand | (300) | 0 |
| Investments: | | |
| Government Obligations | (3,060,701) | 3,060,701 |
| Repurchase Agreements | (272,727) | 272,727 |
| STAR Ohio | (22,813) | 22,813 |
| <i>GASB Statement No. 3</i> | <u>\$2,831,953</u> | <u>\$3,356,241</u> |

NORTHWEST LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

NOTE 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 2003 for real and public utility property taxes represents collections of calendar 2002 taxes. Property tax payments received during calendar 2003 for tangible personal property (other than public utility property) are for calendar 2003 taxes.

2003 real property taxes are levied after April 1, 2003 on the assessed value as of January 1, 2003, the lien date. Assessed values are established by State law at thirty-five percent of appraised market value. First half 2003 real property taxes are collected in and intended to finance fiscal year 2004.

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. 2003 public utility property taxes became a lien December 31, 2002, are levied after April 1, 2003 and are collected in 2004 with real property taxes.

2003 tangible personal property taxes are levied after April 1, 2003, on the value as of December 31, 2002. Collections are made in 2003. Tangible personal property assessments are twenty-five percent of true value.

Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

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

NORTHWEST LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

NOTE 6 - PROPERTY TAXES (Continued)

The assessed values upon which fiscal year 2003 taxes were collected are:

| | <u>2002 Second- Half Collections</u> | | <u>2003 First- Half Collections</u> | |
|---------------------------------------------------|------------------------------------------|-----------------------|-----------------------------------------|-----------------------|
| | <u>Amount</u> | <u>Percent</u> | <u>Amount</u> | <u>Percent</u> |
| Agricultural/Residential and Other Real Estate | \$57,411,420 | 86.51% | \$59,689,790 | 84.53% |
| Public Utility | 5,309,260 | 7.99% | 6,810,540 | 9.64% |
| Tangible Personal Property | <u>3,645,250</u> | <u>5.50%</u> | <u>4,117,510</u> | <u>5.83%</u> |
| Total Assessed Value | <u><u>\$66,365,930</u></u> | <u><u>100.00%</u></u> | <u><u>\$70,617,840</u></u> | <u><u>100.00%</u></u> |
| Tax rate per \$1,000 of Assessed valuation | \$25.31 | | \$25.31 | |

The School District receives property taxes from Scioto County. The 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, 2003, are available to finance fiscal year 2003 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable represent delinquent taxes outstanding and real property, personal property and public utility taxes which became measurable as of June 30, 2003 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount available as an advance at June 30 were levied to finance current fiscal year operations. The receivable is therefore offset by a credit to deferred revenue for that portion not levied to finance current year operations. The amount available as an advance is recognized as revenue. The amount available as an advance at June 30, 2003, was \$105,790 in the General Fund, \$2,320 in the Classroom Facilities Special Revenue Fund, and \$24,301 in the Bond Retirement Debt Service Fund.

NOTE 7 - RECEIVABLES

Receivables at June 30, 2003, consisted of property taxes, interest, interfund, 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.

A summary of the principal items of intergovernmental receivables follows:

NORTHWEST LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2003

NOTE 7 - RECEIVABLES (Continued)

| | <u>Amounts</u> |
|--------------------------------------|-------------------------|
| Major Special Revenue Fund: | |
| Title I | <u>\$500,192</u> |
| Nonmajor Special Revenue Funds: | |
| Title VI-B | \$154,506 |
| Title II | 13,865 |
| Drug Free Grant | 7,354 |
| Title II-A | 152,831 |
| Title VI-R | <u>9,317</u> |
| Total Nonmajor Special Revenue Funds | <u>337,873</u> |
| Total Intergovernmental Receivables | <u><u>\$838,065</u></u> |

NOTE 8 - CAPITAL ASSETS

Capital assets activity for the fiscal year ended June 30, 2003, was as follows:

| | Ending Balance 06/30/02* | Additions | Deletions | Ending Balance 06/30/03 |
|---------------------------------------------|--------------------------------|---------------------------|-------------------------|-------------------------------|
| Governmental Activities | | | | |
| Capital Assets, Not Being Depreciated | | | | |
| Land | \$189,530 | \$0 | \$0 | \$189,530 |
| Construction in Progress | 0 | 162,923 | 0 | 162,923 |
| Total Capital Assets, Not Being Depreciated | <u>189,530</u> | <u>162,923</u> | <u>0</u> | <u>352,453</u> |
| Capital Assets Being Depreciated | | | | |
| Land Improvements | 151,361 | 0 | 0 | 151,361 |
| Buildings and Improvements | 19,702,563 | 3,400 | 0 | 19,705,963 |
| Furniture and Equipment | 5,385,757 | 106,329 | (130,626) | 5,361,460 |
| Vehicles | 1,496,412 | 0 | 0 | 1,496,412 |
| Books | 865,262 | 0 | 0 | 865,262 |
| Total Capital Assets, Being Depreciated | <u>27,601,355</u> | <u>109,729</u> | <u>(130,626)</u> | <u>27,580,458</u> |
| Less Accumulated Depreciation: | | | | |
| Land Improvements | (22,628) | (7,534) | 0 | (30,162) |
| Buildings and Improvements | (5,839,218) | (529,138) | 122,267 | (6,246,089) |
| Furniture, Fixtures & Equipment | (3,317,865) | (452,667) | 0 | (3,770,532) |
| Vehicles | (1,400,815) | (68,657) | 0 | (1,469,472) |
| Books | (865,262) | 0 | 0 | (865,262) |
| Total Accumulated Depreciation | <u>(11,445,788)</u> | <u>(1,057,996)</u> | <u>122,267</u> | <u>(12,381,517)</u> |
| Total Capital Assets Being Depreciated, Net | <u>16,155,567</u> | <u>(948,267)</u> | <u>(8,359)</u> | <u>15,198,941</u> |
| Governmental Activities Capital Assets, Net | <u><u>\$16,345,097</u></u> | <u><u>(\$785,344)</u></u> | <u><u>(\$8,359)</u></u> | <u><u>\$15,551,394</u></u> |

* Restated – see Note 3

NORTHWEST LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

NOTE 8 - CAPITAL ASSETS (Continued)

*Depreciation expense was charged to governmental functions as follows:

| | |
|----------------------------------|--------------------|
| Instruction: | |
| Regular | \$323,146 |
| Special | 266,803 |
| Vocational | 37 |
| Other | 10,508 |
| Support Services: | |
| Pupils | 12,577 |
| Instructional Staff | 19,104 |
| Administration | 9,321 |
| Fiscal | 2,563 |
| Operation & Maintenance of Plant | 269,884 |
| Pupil Transportation | 122,785 |
| Central | 1,154 |
| Non-Instructional Services | 16,912 |
| Extra-Curricular Activities | 3,202 |
| Total Depreciation Expense | <u>\$1,057,996</u> |

NOTE 9 - RISK MANAGEMENT

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2003, the School District contracted with Portsmouth Insurance for property and fleet insurance and inland marine coverage. The School District contracted with Nationwide Insurance for liability insurance. Coverage is as follows:

| | |
|-------------------------------------------------------------|--------------|
| Building and Contents-replacement cost (\$1,000 deductible) | \$38,083,301 |
| Inland Marine Coverage (\$1,000 deductible) | 10,000 |
| Boiler and Machinery (\$1,000 deductible) | No limit |
| Crime Insurance | 5,000 |
| Automobile Liability (no deductible) | 1,000,000 |
| Uninsured Motorists (\$250-\$500 deductible) | 1,000,000 |
| General Liability | |
| Per occurrence | 2,000,000 |
| Total per year | 5,000,000 |

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

The School District is a member of the Scioto County Schools Council, a public entity shared risk pool (Note 17), offering employee medical and dental insurance to participating school districts within the county. Monthly premiums are paid to the South Central Ohio Educational Service Center as fiscal agent, who in turns pays the claims on the School District's behalf. The Council is responsible for the management and operations of the program. Upon a school districts termination from the Council, the Council shall have no obligation to the school district beyond paying claims incurred prior to termination and any applicable extended benefits that were provided under the plan. All claims and expenses shall be paid from the funds of the Council.

NORTHWEST LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

NOTE 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 State statute per Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100 Columbus, Ohio 43215-3746 or by calling (614)222-5853.

Plan members are required to contribute 9 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 2003, 5.46 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2002, 4.2 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, 2003, 2002, and 2001 were \$100,420, \$66,977, and \$52,658, respectively; 47 percent has been contributed for fiscal year 2003 and 100 percent for the fiscal years 2002 and 2001. \$52,783 represents the unpaid contribution for fiscal year 2003.

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.

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

A DB or Combined Plan member with five or more years of 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.

NORTHWEST LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

NOTE 10 – DEFINED BENEFIT PENSION PLANS (CONTINUED)

B. State Teachers Retirement System (Continued)

For the fiscal year ended June 30, 2003, plan members were required to contribute 9.3 percent of their annual covered salaries. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2002, the portion used to fund pension obligations was 9.5 percent. Contribution rates are established by STRS, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The School District's required contributions for pension obligations to STRS for the fiscal years ended June 30, 2003, 2002, and 2001 were \$461,612, \$518,198, and \$545,556 respectively; 83 percent has been contributed for fiscal year 2003 and 100 percent for the fiscal years 2002 and 2001. \$77,410 representing the unpaid contribution for fiscal year 2003, is recorded as a liability within the respective funds.

NOTE 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, 2003, the STRS Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the School District, this amount equaled \$49,749 for fiscal year 2003.

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 \$2.8 billion. For the year ended June 30, 2003, net health care costs paid by STRS were \$352,301,000 and STRS had 108,294 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, 2003, employer contributions to fund health care benefits were 5.83 percent of covered payroll, a decrease of 3.97 percent from fiscal year 2002. 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 2003, 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 2003 fiscal year equaled \$148,570.

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 approximately 50,000 participants currently receiving health care benefits.

NOTE 12 - EMPLOYEE BENEFITS

A. Compensated Absences

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and State laws. Classified employees earn ten to twenty days of vacation per fiscal year, depending upon length of service. Accumulated, unused vacation time is paid to classified employees and administrators upon termination of employment. Teachers do not earn vacation time.

NORTHWEST LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2003

NOTE 12 - EMPLOYEE BENEFITS (CONTINUED)

A. Compensated Absences (Continued)

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 225 days for all certified employees, 220 days for all classified employees, and the length of the contract for all administrators. Upon retirement, payment is made for one-fourth of accrued, but unused sick leave credit for certified employees and administrators. The maximum payment is 50 days for certified employees and up to 50 days for administrators. For classified employees, payment is made for one-third of accrued, but unused sick leave credit to a maximum of 49 days.

B. Life Insurance

The School District provides life insurance to employees through CoreSource.

C. Deferred Compensation

School District employees may participate in the Ohio Public Employees Deferred Compensation Plan. This plan was created in accordance with Internal Revenue Code Section 457. Participation is on a voluntary payroll deduction basis. The plan permits deferral of compensation until future years. According to the plan, the deferred compensation is not available until termination, retirement, death or an unforeseeable emergency.

NOTE 13 - CAPITAL LEASES - LESSEE DISCLOSURE

In prior years, the School District has entered into capitalized leases for equipment and furniture and fixtures. Each lease meets 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 combined financial statements for the governmental funds. These expenditures are reported as function expenditures on the budgetary statements.

Capital assets consisting of equipment and furniture and fixtures have been capitalized in the amount of \$357,669. This amount represents the present value of the minimum lease payments at the time of acquisition. Principal payments in fiscal year 2003 totaled \$73,581 in the governmental funds.

The School District entered into a lease purchase agreement on August 21, 2002 to finance the School District's portion of the classroom facilities project. The lease meets the criteria of a capital lease as defined by the 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. The total amount of the capital lease obligation of \$3,050,000 was recorded as an increase in restricted cash and inception of a capital lease in the Classroom Facilities Fund in the fund financial statements. These expenditures will be reflected as program/function expenditures on a budgetary basis. No payment was made during the audit period for this lease purchase agreement.

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, 2003.

| Fiscal Year Ending June 30, | |
|-----------------------------------------|---------------------|
| 2004 | \$367,669 |
| 2005 | 327,476 |
| 2006 | 285,372 |
| 2007 | 284,620 |
| 2008 | 285,146 |
| Thereafter | <u>2,828,097</u> |
| Total Minimum Lease Payments | 4,378,380 |
| Less: Amount Representing Interest | <u>(1,208,667)</u> |
| Present Value of Minimum Lease Payments | <u>\$ 3,169,713</u> |

NORTHWEST LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

NOTE 14 - LONG-TERM OBLIGATIONS

The changes in the School District's long-term obligations during fiscal year 2003 were as follows:

| | Principal Outstanding 6/30/02 | Additions | Deductions | Principal Outstanding 6/30/03 | Principal Outstanding 6/30/03 |
|---------------------------------------------------------------------|-------------------------------------|--------------------|------------------|-------------------------------------|-------------------------------------|
| 1999 School Facilities General Obligations Refunding Bond - 4.5% | \$2,358,372 | \$97,781 | \$180,000 | \$2,276,153 | \$190,000 |
| Capital Leases | 193,294 | 3,050,000 | 73,581 | 3,169,713 | 228,508 |
| Compensated Absences | <u>628,925</u> | <u>195,775</u> | <u>0</u> | <u>824,700</u> | <u>14,971</u> |
| Total General Long-Term Obligations | <u>\$3,180,591</u> | <u>\$3,343,556</u> | <u>\$253,581</u> | <u>\$6,270,566</u> | <u>\$433,479</u> |

Advance Refunding - On April 15, 1999, the School District issued \$2,519,992 of general obligation refunding bonds to provide resources to purchase U.S. Government Securities that were placed in an irrevocable trust for the purpose of generating resources for all future debt service payments on \$2,520,000 of refunded debt. As a result, the refunded bonds were considered to be defeased and the liability was removed from the District's financial statements. At June 30, 2003, \$2,375,000 of bonds outstanding are considered defeased by assets of \$2,466,159.

\$1,990,000 were issued as serial bonds with interest rates ranging from 3.25% - 4.30%. \$529,992 were issued as capital appreciation bonds. The bonds were issued with a \$358,114 premium. The serial bonds and capital appreciation bonds are not subject to mandatory sinking fund or optional redemption prior to stated maturity. The capital appreciation bonds will mature in fiscal years 2010 and 2015. The maturity amount of the bonds is \$1,640,000. For fiscal year 2003, \$97,781 was accreted on the capital appreciation bonds for a total outstanding bond value of \$2,276,153 at fiscal year end. The bond value at final maturity will be \$2,950,000.

Capital leases will be paid from the General Fund. Compensated absences will be paid from the funds from which the employees' salaries are paid.

The School District's overall legal debt margin was \$4,079,453 with an unvoted debt margin of \$70,618 at June 30, 2003.

Principal and interest requirements to retire general obligation bonds at June 30, 2003, are as follows:

| Fiscal year Ending June 30, | Serial Bonds | Capital Appreciation Bonds | Interest | Total |
|--------------------------------|--------------------|----------------------------------|--------------------|--------------------|
| 2004 | 190,000 | 0 | 50,285 | 240,285 |
| 2005 | 200,000 | 0 | 42,580 | 242,580 |
| 2006 | 210,000 | 0 | 34,327 | 244,327 |
| 2007 | 225,000 | 0 | 25,406 | 250,406 |
| 2008 | 235,000 | 0 | 15,744 | 250,744 |
| 2008-2013 | 250,000 | 1,360,000 | 716,587 | 2,326,587 |
| 2014-2015 | 0 | 280,000 | 398,796 | 678,796 |
| Total | <u>\$1,310,000</u> | <u>\$1,640,000</u> | <u>\$1,283,725</u> | <u>\$4,233,725</u> |

NORTHWEST LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2003

NOTE 15 - INTERFUND ACTIVITY

Interfund Transfers

Transfers made during the year ended June 30, 2003, were as follows:

| <u>Fund</u> | <u>Transfer From</u> | <u>Transfer To</u> |
|---------------------------------------------------------|----------------------|--------------------|
| General (Major Fund) | \$364,408 | |
| Classroom Facilities (Nonmajor Special Revenue Fund) | | \$311,220 |
| Athletics (Non-major Special Revenue Fund) | | 53,188 |

Transfers are made to move unrestricted balances to support programs and projects accounted for in other funds.

Interfund Receivable/Payable

Interfund balances at June 30, 2003, consist of the following individual fund receivables and payables, which are expected to be repaid during the 2004 fiscal year:

| | <u>Interfund Receivables</u> | <u>Interfund Payables</u> |
|----------------------------------|----------------------------------|-------------------------------|
| General Fund (Major Fund) | \$439,983 | \$0 |
| Special Revenue Funds: | | |
| ABLE (Non-major Fund) | 0 | 9,534 |
| Title VI-B (Non-major Fund) | 0 | 79,576 |
| Title I (Major Fund) | 0 | 281,640 |
| Title V (Non-major Fund) | 0 | 6,585 |
| Drug Free Grant (Non-major Fund) | 0 | 1,739 |
| Title II-A (Non-major Fund) | 0 | 47,464 |
| Title II-D (Non-major Fund) | 0 | 13,445 |
| Total Special Revenue Funds | 0 | 439,983 |
| Total All Funds | \$439,983 | \$439,983 |

The amounts due to the General Fund are the result of the School District moving unrestricted monies to support grant funds whose grants operate on a reimbursement basis. The general fund will be reimbursed when funds become available in the non-major special revenue funds.

NOTE 16 - JOINTLY GOVERNED ORGANIZATIONS

South Central Ohio Computer Association - The School District is a participant in the South Central Ohio Computer Association (SCOCA) which is a computer consortium. SCOCA is an association of public school districts within the boundaries of Highland, Adams, Pike, Scioto, Brown, Ross, Jackson, Vinton, and Lawrence Counties. 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 school districts. The governing board of SCOCA consists of two representatives from each county in the SCOCA service region designated by the Ohio Department of Education, two representatives of the school treasurers, and one representative from the fiscal agent. The School District paid SCOCA \$57,730 for services provided during the year. Financial information can be obtained from the fiscal agent, the Pike County Joint Vocational School District, Tonya Cooper, who serves as Treasurer, at P. O. Box 577, 175 Beaver Creek Road, Piketon, Ohio 45661.

NORTHWEST LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2003

NOTE 16 - JOINTLY GOVERNED ORGANIZATIONS (CONTINUED)

Coalition of Rural and Appalachian Schools - The Coalition of Rural and Appalachian Schools is a jointly governed organization of over one hundred school districts in southeastern Ohio. The Coalition is operated by a board which is composed of fourteen members. The board members are composed of one superintendent from each county elected by the school districts within that county. The Council provides various services for school district administrative personnel; gathers data regarding conditions of education in the region; cooperates with other professional groups to assess and develop programs designed to meet the needs of member districts; and provides staff development programs for school district personnel. The Council is not dependent upon the continued participation of the School District and the School District does not maintain an equity interest in or a financial responsibility for the Council. The School District paid \$300 to the Coalition for services provided during the year.

NOTE 17 - PUBLIC ENTITY SHARED RISK POOL

Scioto County Schools Council - The School District is a member of the Scioto County Schools Council, a public entity shared risk pool. Several Scioto County school districts have entered into an agreement with the South Central Ohio Educational Service Center to form the Scioto County Schools Council. The overall objectives of the council are to formulate and administer a program of health insurance for the benefit of the council members' employees and their dependents, to obtain lower costs for health coverage, and to secure cost control by implementing a program of comprehensive loss control. The Council's business and affairs are managed by a Board of Directors, consisting of the superintendents from each of the participating school districts. The School District pays premiums based on what the Council estimates will cover the costs of all claims for which the Council is obligated. If the School District's claims exceed its premiums, there is no individual supplemental assessment; on the other hand, if the School District's claims are low, it will not receive a refund.

The Council views its activities in the aggregate, rather than on an individual entity basis. To obtain financial information, write to the fiscal agent, South Central Ohio Educational Service Center at Fourth and Court Streets, Portsmouth, Ohio 45662.

NOTE 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 or construction of capital improvements. Amounts not spent by year-end or offset by similarly restricted resources received during the year must be held in restricted cash at year-end and carried forward to be used for the same purposes in future years.

For the fiscal year ended June 30, 2003, the School District was no longer required to set aside funds in the budget reserve set-aside, with the exception of monies received from the Bureau of Workers' Compensation, which must be spent for specified purposes.

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.

| | Textbooks | Capital Acquisition | Budget Stabilization |
|-----------------------------------------------|------------|------------------------|-------------------------|
| Set-aside Reserve Balance as of June 30, 2002 | \$17,915 | \$0 | \$87,229 |
| Current year set-aside requirement | 237,409 | 237,409 | 0 |
| Qualifying disbursements | (255,324) | (237,409) | 0 |
| Set-aside Reserve Balance as of June 30, 2003 | <u>\$0</u> | <u>\$0</u> | <u>\$87,229</u> |
| Set-aside Cash Balance as of June 30, 2003 | <u>\$0</u> | <u>\$0</u> | <u>\$87,229</u> |

NORTHWEST LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

NOTE 18 - SET-ASIDE CALCULATIONS AND FUND RESERVES (CONTINUED)

Amounts of qualifying disbursements presented in the table were limited to those necessary to reduce the year-end balance to zero. Although the School District may have had additional offsets and qualifying disbursements for capital acquisitions during the year, and this extra amount may be used to reduce the set-aside requirements of future years, the School District has decided to not carry over such negative balances to the next year.

NOTE 19 - 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 is 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, 2003.

B. Litigation

The School District is not party to any legal proceedings.

NOTE 21 – SUPREME COURT CASE 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.

Northwest Local School District
Schedule of Federal Awards Expenditures
For the Year Ended June 30, 2003

| Federal Grantor/Pass Through Grantor/Program Title | Pass Through Entity Number | Federal CFDA Number | Receipts | Non-Cash Receipts | Disbursements | Non-Cash Disbursements |
|-------------------------------------------------------------------|----------------------------------|---------------------------|--------------------|----------------------|--------------------|---------------------------|
| United States Department of Agriculture | | | | | | |
| <i>Passed through the Ohio Department of Education</i> | | | | | | |
| <i>Nutrition Cluster:</i> | | | | | | |
| Food Distribution Program | NA | 10.550 | \$0 | \$45,334 | \$0 | \$45,334 |
| National School Breakfast Program | 05-PU 2003 | 10.553 | 58,595 | 0 | 58,595 | 0 |
| National School Lunch Program | LL-P4 2003 | 10.555 | 252,563 | 0 | 252,563 | 0 |
| Total United States Department of Agriculture - Nutrition Cluster | | | 311,158 | 45,334 | 311,158 | 45,334 |
| United States Department of Education | | | | | | |
| <i>Passed through the Ohio Department of Education</i> | | | | | | |
| <i>Special Education Cluster:</i> | | | | | | |
| Title VI-B | 6B-SF 2002 | 84.027 | 90,519 | 0 | 165,392 | 0 |
| Total Special Education Cluster | | | 90,519 | 0 | 165,392 | 0 |
| <i>Passed through the Scioto County JVS</i> | | | | | | |
| 21st Century Grant | NA | 84.287 | 15,363 | 0 | 15,363 | 0 |
| <i>Passed through the Ohio Department of Education</i> | | | | | | |
| Adult Education State Grant Program | AB-S1 2003 | 84.002 | 87,116 | 0 | 85,285 | 0 |
| Title 1 | C1-S1 2003 | 84.010 | 386,006 | 0 | 666,431 | 0 |
| Safe & Drug Free Schools and Communities | DR-S1 2003 | 84.186 | 4,854 | 0 | 6,593 | 0 |
| Even Start Family Literacy | EV-T1 2003 | 84.213 | 218,937 | 0 | 164,316 | 0 |
| Goals 2000 | G2-S2 | 84.276 | 0 | 0 | 3,606 | 0 |
| Eisenhower Professional Development Grant | MS-S1 2002 | 84.281 | 1,508 | 0 | 19,631 | 0 |
| Innovative Education Program Strategy | C2-S1 2003 | 84.298 | 6,594 | 0 | 11,397 | 0 |
| Tech Literacy Challenge | TJ-S1 2003 | 84.318 | 3,398 | 0 | 31,653 | 0 |
| Class Size Reduction | CR-S1 2002 | 84.340 | 39,025 | 0 | 39,025 | 0 |
| Grants for School Repair & Renovation (ATIP) | AT-S2 2002 | 84.352A | 2,996 | 0 | 2,996 | 0 |
| Title VI-B Rural | RU-S1 2003 | 84.358 | 35,267 | 0 | 11,487 | 0 |
| Improving Teacher Quality | TR-S1 2003 | 84.367 | 30,434 | 0 | 74,404 | 0 |
| Total United States Department of Education | | | 922,017 | 0 | 1,297,579 | 0 |
| United States Department of Labor | | | | | | |
| <i>Passed through the Scioto County JVS</i> | | | | | | |
| School to Work Grant | NA | 17.249 | 73,838 | 0 | 17,543 | 0 |
| <i>Passed through Shawnee State University</i> | | | | | | |
| School to Work Grant | NA | 17.249 | 0 | 0 | 63 | 0 |
| Total United States Department of Labor | | | 73,838 | 0 | 17,606 | 0 |
| Total Federal Financial Assistance | | | \$1,307,013 | \$45,334 | \$1,626,343 | \$45,334 |

NA - Pass Through Entity Number is Not Available

See accompanying notes to the schedule of federal awards expenditures.

Northwest Local School District
Notes to Schedule of Federal Awards Expenditures
For the Fiscal Year Ended June 30, 2003

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying schedule of federal awards expenditures is a summary of the activity of the School District's federal award programs. The schedule has been prepared on the cash basis of accounting.

NOTE B - FOOD DISTRIBUTIONS

Non-monetary assistance is reported in the schedule at the fair market value of the commodities received and disbursed. Monies are commingled with State grants. It is assumed federal monies are expended first. At June 30, 2003, the School District had no significant food commodities in inventory.

BALESTRA, HARR & SCHERER, CPAS, INC.
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Ohio Society of Certified Public Accountants

Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

Members of the Board
Northwest Local School District
800 Mohawk Drive
McDermott, Ohio 45652

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Northwest Local School District (the School District), as of and for the year ended June 30, 2003, and have issued our report thereon dated February 10, 2004, in which we indicated the School District adopted Governmental Accounting Standards Board Statement numbers 34, 37, 38, and Interpretation 6. 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 School District's general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulation, 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 certain immaterial instances of noncompliance, which we have reported to the management of the School District in a separate letter dated February 10, 2004.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School 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 the 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 other matters involving the internal control over financial reporting, which we have reported to the management of the District in a separate letter dated February 10, 2004.

Members of the Board
Northwest Local School District
Report on Compliance and on Internal Control Over Financial
Reporting Based on an Audit of Financial Statements
Performed in Accordance With *Government Auditing Standards*
Page 2

This report is intended solely for the information and use of the audit committee, management, members of the Board, 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.

Balestra, Harr & Scherer, CPAs, Inc.
Balestra, Harr & Scherer, CPAs, Inc.
February 10, 2004

BALESTRA, HARR & SCHERER, CPAs, INC.
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Ohio Society of Certified Public Accountants

**Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control
Over Compliance in Accordance With OMB Circular A-133**

Members of the Board
Northwest Local School District
800 Mohawk Drive
McDermott, Ohio 45652

Compliance

We have audited the compliance of Northwest Local School District (the 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 its major federal program for the year ended June 30, 2003. The School District's major federal program is 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 its major federal program is the responsibility of the School District's management. Our responsibility is to express an opinion on the 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 Circular 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 the 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 of the School District's compliance with those requirements.

In our opinion, the School 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, 2003.

Internal Control Over Compliance

The management of the 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 the 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, regulation, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting, which we have reported to the management of the District in a separate letter dated February 10, 2004.

This report is intended solely for the information and use of the audit committee, management, members of the Board, 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.

Balestra, Harr & Scherer, CPAs, Inc.

Balestra, Harr & Scherer, CPAs, Inc.

February 10, 2004

Northwest Local School District
 Schedule of Findings and Questioned Costs
 OMB Circular A-133 Section .505
 For the Fiscal Year Ended 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)(ii) | Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)? | No |
| (d)(1)(iii) | Was there any reported noncompliance at the financial statement level (GAGAS)? | No |
| (d)(1)(iv) | Were there any material internal control weakness conditions reported for major federal programs? | No |
| (d)(1)(iv) | Were there any other reportable internal control weakness conditions reported for major federal programs? | No |
| (d)(1)(v) | Type of Major Programs' Compliance Opinion | Unqualified |
| (d)(1)(vi) | Are there any reportable findings under section .510? | No |
| (d)(1)(vii) | Major Programs (list): | CFDA #84.010 Title I |
| (d)(1)(viii) | Dollar Threshold: Type A\B Programs | Type A: > \$300,000 Type B: all others |
| (d)(1)(ix) | Low Risk Auditee? | 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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NORTHWEST LOCAL SCHOOL DISTRICT

SCIOTO COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MARCH 25, 2004**