

**NORTHERN LOCAL SCHOOL DISTRICT**

PERRY COUNTY

SINGLE AUDIT

July 1, 2003 – June 30, 2004





**Auditor of State  
Betty Montgomery**

Board of Education  
Northern Local School District  
8700 Sheridan Road NW  
Thornville, Ohio 43076

We have reviewed the Independent Auditor's Report of the Northern Local School District, Perry County, prepared by Wilson, Shannon & Snow, Inc., for the audit period July 1, 2003 to June 30, 2004. 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 Northern Local School District is responsible for compliance with these laws and regulations.

*Betty Montgomery*

BETTY MONTGOMERY  
Auditor of State

November 18, 2004

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**Northern Local School District  
Perry County**

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Board of Education  
Northern Local School District  
Thornville, Ohio 43076

### **Independent Auditors' Report**

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

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined cash, investments, and combined fund cash balances of the District as of June 30, 2004, and its combined cash receipts and disbursements and its combined budgeted and actual receipts and budgeted and actual disbursements and encumbrances, for the year then ended on the basis of accounting described in Note A.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 11, 2004 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

*Wilson, Shannon & Snow, Inc.*

**CERTIFIED PUBLIC ACCOUNTANTS**  
Ten West Locust Street  
Newark, Ohio 43055  
(740) 345-6611  
1-800-523-6611  
FAX (740) 345-5635

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

This report is intended solely for the information and use of management, the Board of Education and other officials authorized to receive this report under Section 117.26, Ohio Revised Code, and is not intended to be and should not be used by anyone other than these specified parties.

*Wilson, Shuman & Snow, Inc.*

Newark, Ohio  
October 11, 2004

**Northern Local School District  
Perry County**

COMBINED STATEMENT OF CASH, INVESTMENTS AND FUND CASH BALANCES -  
ALL FUND TYPES

June 30, 2004

Cash in banks	\$	821,514		
Certificates of deposit		47,000		
Less outstanding checks		(184,424)		
			\$	684,090
Investments				11,549,069
Cash on hand				1,500
Total			\$	12,234,659

CASH BALANCES BY FUND TYPE

Governmental Funds				
General	\$	3,450,848		
Special Revenue		383,931		
Debt Service		10,070		
Capital Projects		8,120,837	\$	11,965,686
Proprietary Funds				
Enterprise		70		
Internal Service		130,040		130,110
Fiduciary Funds				
Non-expendable Trust		90,865		
Agency		47,998		138,863
Total			\$	12,234,659

The accompanying notes are an integral part of this statement

**Northern Local School District  
Perry County**

COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS AND  
CHANGES IN FUND CASH BALANCES - ALL GOVERNMENTAL FUND TYPES

Year ended June 30, 2004

	Governmental Fund Types				Total
	General	Special Revenue	Debt Service	Capital Projects	(Memorandum Only)
<b>Receipts</b>					
Local sources					
Taxes	\$ 3,761,168	\$ -	\$ 513,863	\$ 504,060	\$ 4,779,091
Tuition	309,128	-	-	-	309,128
Earnings on investments	85,801	-	-	156,687	242,488
Extracurricular activities	-	392,656	-	-	392,656
Classroom materials and fees	49,784	-	-	-	49,784
Miscellaneous	130,252	21,233	-	2,750	154,235
Intermediate sources					
Unrestricted Grants-in-Aid	-	12,750	-	-	12,750
Restricted Grants-in-Aid	-	1,678	-	-	1,678
State sources					
Unrestricted Grants-in-Aid	10,798,767	-	34,342	30,698	10,863,807
Restricted Grants-in-Aid	104,885	226,486	-	837,179	1,168,550
Federal sources					
Restricted Grants-in-Aid	29,213	557,459	-	-	586,672
Total receipts	15,268,998	1,212,262	548,205	1,531,374	18,560,839
<b>Disbursements</b>					
Instruction					
Regular	6,271,540	301,961	-	55,055	6,628,556
Special	875,686	389,704	-	-	1,265,390
Vocational Education	240,015	1,000	-	-	241,015
Other instruction	570,476	-	-	-	570,476
Supporting services					
Pupils	709,450	128,575	-	-	838,025
Instructional staff	967,130	113,565	-	900	1,081,595
Board of Education	782,842	-	-	-	782,842
Administration	1,235,139	4,972	87	118	1,240,316
Fiscal services	475,246	-	16,451	17,287	508,984
Business	20,702	-	-	-	20,702
Operation and maintenance - plant	1,506,470	-	-	56,448	1,562,918
Pupil transportation	1,238,088	-	-	-	1,238,088
Central	22,960	104	-	-	23,064
Operation of non-instruction services					
Food Service Operations	19	-	-	-	19
Community services	-	108,764	-	-	108,764
Extracurricular activities					
Academic and subject oriented activities	56,218	134,526	-	-	190,744
Sports oriented	127,826	176,404	-	-	304,230
Co-curricular activities	-	54,681	-	-	54,681
Facilities acquisition and construction services					
Site improvement	660,594	-	-	-	660,594
Architecture and engineering	-	-	-	1,250,547	1,250,547
Building acquisition and construction	142,544	-	-	14,316,571	14,459,115
Building improvement	-	-	-	45,743	45,743
Other facilities acquisition costs	-	-	-	-	-
Debt service					
Repayment of debt	-	-	544,788	346,300	891,088
Total disbursements	15,902,945	1,414,256	561,326	16,088,969	33,967,496

The accompanying notes are an integral part of this statement.

**Northern Local School District  
Perry County**

COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS AND  
CHANGES IN FUND CASH BALANCES - ALL GOVERNMENTAL FUND TYPES  
CONTINUED  
Year ended June 30, 2004

	Governmental Fund Types				Total
	General	Special Revenue	Debt Service	Capital Projects	(Memorandum Only)
Excess of receipts over (under) disbursements	\$ (633,947)	\$ (201,994)	\$ (13,121)	\$ (14,557,595)	\$ (15,406,657)
Other financing (uses) sources					
Proceeds from sale of assets	68,730	-	-	-	68,730
Advances - out	<u>(12,253)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(12,253)</u>
Total other financing (uses) sources	<u>56,477</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>56,477</u>
Excess of receipts and other financing sources (under) over disbursements and other financing (uses)	(577,470)	(201,994)	(13,121)	(14,557,595)	(15,350,180)
Fund balances at beginning of year	<u>4,028,318</u>	<u>585,925</u>	<u>23,191</u>	<u>22,678,432</u>	<u>27,315,866</u>
Fund balances at end of year	<u>\$ 3,450,848</u>	<u>\$ 383,931</u>	<u>\$ 10,070</u>	<u>\$ 8,120,837</u>	<u>\$ 11,965,686</u>

The accompanying notes are an integral part of this statement.

**Northern Local School District  
Perry County**

**COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS AND  
CHANGES IN FUND CASH BALANCES - ALL PROPRIETARY FUND TYPE  
AND FIDUCIARY FUND TYPES**

Year ended June 30, 2004

	Proprietary Fund Types		Fiduciary Fund Type		Total (Memorandum Only)
	Enterprise	Internal Service	Non-expendable Trust	Agency	
Operating receipts					
Food services	\$ 429,512	\$ -	\$ -	\$ -	\$ 429,512
Extracurricular activities	-	-	-	74,574	74,574
Charges for services	-	1,630,102	-	-	1,630,102
Miscellaneous	-	-	2,239	-	2,239
Total operating receipts	<u>429,512</u>	<u>1,630,102</u>	<u>2,239</u>	<u>74,574</u>	<u>2,136,427</u>
Operating disbursements					
Personal services - salaries	220,281	-	-	-	220,281
Employees' retirement and insurance	109,522	129,214	-	-	238,736
Purchased services	8,533	-	-	-	8,533
Claims paid	-	1,507,220	-	-	1,507,220
Supplies and materials	281,591	-	-	-	281,591
Capital Outlay	708	-	-	-	708
Miscellaneous	234	-	750	73,674	74,658
Total operating disbursements	<u>620,869</u>	<u>1,636,434</u>	<u>750</u>	<u>73,674</u>	<u>2,331,727</u>
Excess of operating receipts (under) over operating disbursements	(191,357)	(6,332)	1,489	900	(195,300)
Non-operating receipts					
Earnings on Investments	7	-	-	-	7
Unrestricted Grants-in-Aid - state	6,772	-	-	-	6,772
Unrestricted Grants-in-Aid - federal	166,442	-	-	-	166,442
Total non-operating receipts	<u>173,221</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>173,221</u>
Excess of operating receipts and non-operating receipts (under) over operating disbursements	(18,136)	(6,332)	1,489	900	(22,079)
Other financing uses					
Advances - in	12,253	-	-	-	12,253
Total other financing uses	<u>12,253</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>12,253</u>
Excess of receipts and other financing sources (under) over disbursements and other financing (uses)	(5,883)	(6,332)	1,489	900	(9,826)
Fund balances at beginning of year	<u>5,953</u>	<u>136,372</u>	<u>89,376</u>	<u>47,098</u>	<u>278,799</u>
Fund balances at end of year	<u>\$ 70</u>	<u>\$ 130,040</u>	<u>\$ 90,865</u>	<u>\$ 47,998</u>	<u>\$ 268,973</u>

The accompanying notes are an integral part of this statement.

**Northern Local School District  
Perry County**

COMBINED STATEMENT OF RECEIPTS - BUDGET AND ACTUAL

Year ended June 30, 2004

<u>Fund Types/Funds</u>	<u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
Governmental			
General	\$ 15,337,729	\$ 15,337,728	\$ (1)
Special Revenue	1,212,260	1,212,262	2
Debt Service	548,177	548,205	28
Capital Projects	1,531,374	1,531,374	-
Proprietary			
Enterprise	614,987	614,986	(1)
Internal Service	1,630,102	1,630,102	-
Fiduciary			
Trust and Agency	<u>76,813</u>	<u>76,813</u>	<u>-</u>
Total (Memorandum Only)	<u>\$ 20,951,442</u>	<u>\$ 20,951,470</u>	<u>\$ 28</u>

The accompanying notes are an integral part of this statement.

**Northern Local School District  
Perry County**

**COMBINED STATEMENT OF DISBURSEMENTS AND ENCUMBRANCES COMPARED  
WITH EXPENDITURE AUTHORITY**

Year ended June 30, 2004

<u>Fund Types/Funds</u>	<u>Prior Year Carryover Appropriations</u>	<u>Fiscal Year Appropriations</u>	<u>Total</u>	<u>Fiscal Year Disbursements</u>	<u>Encumbrances Outstanding at June 30, 2004</u>	<u>Total</u>	<u>Variance Favorable (Unfavorable)</u>
<b>Governmental</b>							
General	\$ 689,908	\$ 15,584,671	\$ 16,274,579	\$ 15,915,198	\$ 193,936	\$ 16,109,134	\$ 165,445
Special Revenue	124,223	1,628,584	1,752,807	1,414,256	125,283	1,539,539	213,268
Debt Service	-	561,326	561,326	561,326	-	561,326	-
Capital Projects	10,852,960	8,403,587	19,256,547	16,088,969	3,167,578	19,256,547	-
<b>Proprietary</b>							
Enterprise	420	620,449	620,869	620,869	-	620,869	-
Internal Service	-	1,637,034	1,637,034	1,636,434	-	1,636,434	600
<b>Fiduciary</b>							
Trust and Agency	<u>2,048</u>	<u>117,643</u>	<u>119,691</u>	<u>74,424</u>	<u>4,233</u>	<u>78,657</u>	<u>41,034</u>
<b>Total (Memorandum Only)</b>	<u>\$ 11,669,559</u>	<u>\$ 28,553,294</u>	<u>\$ 40,222,853</u>	<u>\$ 36,311,476</u>	<u>\$ 3,491,030</u>	<u>\$ 39,802,506</u>	<u>\$ 420,347</u>

The accompanying notes are an integral part of this statement.

**Northern Local School District  
Perry County**

NOTES TO FINANCIAL STATEMENTS

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Entity

The Northern Local School District is a political subdivision established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The District is a local school district as defined by Section 3311.03 of the Ohio Revised Code. The District operates under an elected Board of Education (5 members) and is responsible for the provision of public education to residents of the District.

Average daily membership (ADM) as of October 1, 2003, was 2,340. The District employed 172 certificated employees and 82 non-certificated employees.

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

Basis of Accounting

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

These statements include adequate disclosure of material matters, as formerly prescribed or permitted by the Auditor of State of Ohio.

Fund Accounting

The School District uses funds and account groups to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain School District functions or activities.

A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special restrictions or limitations. An account group is a financial reporting device designed to provide accountability for certain assets and liabilities not recorded in the funds because they do not directly affect net available expendable resources.

**Northern Local School District  
Perry County**

NOTES TO FINANCIAL STATEMENTS - CONTINUED

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Fund Accounting - Continued

For financial statement presentation purposes, the various funds of the School District are grouped into the following generic fund types under the broad fund categories governmental, proprietary, and fiduciary.

**GOVERNMENTAL FUNDS**

General Fund

The General Fund is the general operating fund of the District. It is used to account for all financial resources except those required by law or contract 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 general laws of Ohio.

Special Revenue Funds

These funds are used to account for proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to disbursements for specified purposes.

Debt Service Funds

These funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs. According to governmental accounting principles, the debt service fund accounts for the payment of long-term debt for governmental funds only. Under Ohio law, the debt service fund might also be used to account for the payment of the long-term debt of proprietary funds and the short-term debt of both governmental and proprietary funds. For purposes of this report, these funds have been classified into the proper groups, if practicable.

Capital Project Funds

These funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds and trust funds).

**Northern Local School District  
Perry County**

NOTES TO FINANCIAL STATEMENTS - CONTINUED

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

**PROPRIETARY FUNDS**

Enterprise Funds

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

Internal Service Funds

These funds are used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the governmental unit, or to other governmental units, on a cost-reimbursement basis.

**FIDUCIARY FUNDS**

Non-Expendable Trust and Agency Funds

These funds are used to account for assets held by a governmental unit in a trustee capacity or as an agent for individuals, private organizations, other funds and/or governmental units. These include Non-Expendable Trust Funds and Agency Funds. Agency funds are custodial in nature and do not involve measurement of results of operations.

**BUDGETARY PROCESS**

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriation resolution, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriations resolution are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified.

All funds, other than agency funds, are legally required to be budgeted and appropriated. The primary level of budgetary control is at the object level within each function. Any budgetary modifications at this level may only be made by resolution of the Board of Education.

**Northern Local School District  
Perry County**

NOTES TO FINANCIAL STATEMENTS - CONTINUED

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Tax Budget

Prior to January 15, the Superintendent and Treasurer submit to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing for all funds. Public hearings are publicized and conducted to obtain taxpayers' comments. The express purpose of this budget document is to reflect the need for existing (or increased) tax rates. In fiscal year 2004, the filing of the tax budget was waived indefinitely by the Perry County Auditor which is allowable under State law.

Estimated Resources

Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the County Budget Commission and receives the commission's certificate of estimated resources which states the projected revenue of each fund. Prior to June 30, the School District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the certificate of estimated resources. The revised budget then serves as the basis for the appropriation measure. On or about July 1, the certificate is amended to include any unencumbered cash balances from the preceding year. The certificate may be further amended during the year if projected increases or decreases in revenue are identified by the School District Treasurer. The amounts reported in the budgetary statements reflect the amounts in the final amended certificate issued during fiscal year 2004.

Appropriations

Upon receipt of an amended certificate of estimated resources from the County Auditor based on final assessed values and tax rates or a certificate saying no new certificate is necessary, the annual appropriation resolution must be legally enacted by the Board of Education at the fund, function, and object level of expenditures, which are the legal levels of budgetary control. Prior to the passage of the annual appropriation measure, the Board may pass a temporary appropriation measure to meet the ordinary expenses of the School District. The appropriation resolution, by fund, must be within the estimated resources as certified by the County Budget Commission and the total of expenditures and encumbrances may not exceed the appropriation totals at any level of control. Any revisions that alter the total of any fund appropriation, or alter total function appropriations within a fund, or alter object appropriations within functions, must be approved by the Board of Education.

The Board may pass supplemental fund appropriations so long as the total appropriations by fund do not exceed the amounts set forth in the most recent certificate of estimated resources. During the year, several supplemental appropriations were legally enacted; however, none of these amendments were significant.

**Northern Local School District  
Perry County**

NOTES TO FINANCIAL STATEMENTS - CONTINUED

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

The budget figures that appear in the statements of budgetary comparisons represent the final appropriation amounts, including all supplemental appropriations. Formal budgetary integration is employed as a management control device during the year for all funds.

Encumbrances

As part of formal budgetary control, purchase orders, contracts, and other commitments for the expenditure of monies are recorded as the equivalent of expenditures on the budgetary basis in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. Expenditures plus encumbrances may not legally exceed appropriations.

Lapsing of Appropriations

At the close of each fiscal year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriation. Encumbered appropriations are carried forward to the succeeding fiscal year and are not reappropriated.

Property, Plant and Equipment

Fixed assets acquired by or constructed for the District are recorded as disbursements. Depreciation is not recorded for these fixed assets.

Accumulated Unpaid Vacation Leave, Sick Leave and Personal Leave

Accumulated unpaid sick leave and personal leave are not accrued under the cash basis of accounting described in Note A. All leave will be absorbed either by time off from work or, within certain limitations, be paid to the employees. It is not practicable to determine the actuarial value of these benefits as of June 30, 2004.

The District does not currently estimate vacation leave for its administrative employees, thus it is unknown what this obligation would be at June 30, 2004.

Cash and Cash Equivalents

To improve cash management, all cash received by the School District is pooled in a central bank account. Monies for all funds, including proprietary funds, are maintained in this account or temporarily used to purchase short-term investments. Individual fund integrity is maintained through School District records. During fiscal year 2004, investments were limited to repurchase agreements, bank certificates of deposits, government securities, and interest bearing accounts. All investments of the School District had maturities of two years or less. Investments are stated at cost. Investment earnings are allocated as authorized by State statute, and in conjunction with the District policies.

**Northern Local School District  
Perry County**

NOTES TO FINANCIAL STATEMENTS - CONTINUED

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Total Columns on Financial Statements

Total columns on the financial statements are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. This data is not comparable to a consolidation. Interfund-type eliminations have not been made in the aggregation of this data.

NOTE B - 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 five-year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

Interim deposits are deposits of interim monies. Interim monies are those monies that are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts including pass book accounts.

Protection of School District's deposits is provided by the Federal Deposit Insurance Corporation (FDIC) and the Securities Investor Protection Corporation (SIPC), 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 to be deposited or invested in the following securities:

1. United States treasury notes, bills, bonds, or any other obligation or security issued by the United States treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;

**Northern Local School District  
Perry County**

NOTES TO FINANCIAL STATEMENTS - CONTINUED

NOTE B - DEPOSITS AND INVESTMENTS – CONTINUED

3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days
4. Bonds and other obligations of the State of Ohio;
5. No load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that the investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio); and
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred and eighty days in an amount not to exceed twenty five percent of the interim monies available for investment at any one time.
8. Under limited circumstances, corporate debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are 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. Payments for investments may be made upon delivery to the Treasurer of the securities representing the investments or, if the securities are not represented by certificate, upon receipt of confirmation of transfer from the custodian.

**Deposits:** At fiscal year end, the carrying amount of the School District's deposits was \$684,090, which excludes investments in STAR Ohio at June 30, 2004, and the bank balance was \$868,514. Of the bank balance, \$100,000 was covered by federal depository insurance and \$768,514 was covered by pooled securities. The securities serving as collateral were held by the pledging financial institution's trust department in the School District's name and all State statutory requirements for the deposit of money had been followed, however, noncompliance with federal requirements required by the bank and the District could potentially subject the School District to a successful claim by the Federal Deposit Insurance Corporation. The School District also had \$1,500 in petty cash at June 30, 2004.

**Northern Local School District  
Perry County**

NOTES TO FINANCIAL STATEMENTS - CONTINUED

NOTE B - DEPOSITS AND INVESTMENTS - CONTINUED

**Investments:** The School District's investments are categorized below to give an indication of the level of risk assumed by the School District at fiscal year end. Category 1 includes investments that are insured or registered or for which the securities are held by the School District or its agent in the School District's name. Category 2 includes uninsured and unregistered investments that are held by the counter party'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 counter party, or by its trust department or agent but not in the School District's name. The School District's investment in STAR Ohio, an investment pool operated by the Treasurer of the State of Ohio, is an unclassified investment since it is not evidenced by securities that exist in physical or book entry form.

	Category 1	Category 2	Fair Value
Repurchase agreement	\$ -	\$ -	\$ 1,543,000
STAR Ohio	-	-	852,215
Federal Home Loan Bank Note	500,000	4,550,000	4,964,772
Federal Home Loan Mortgage Corporation Notes	-	2,500,000	2,459,934
Federal National Mortgage Association Discount Notes	-	1,500,000	1,481,461
Alliance Reserve Government Portfolio	-	247,687	247,687
	<u>\$500,000</u>	<u>\$ 8,797,687</u>	<u>\$11,549,069</u>

There is no material difference between fair value and market value at June 30, 2004.

NOTE C - PROPERTY TAXES

Property taxes are levied and assessed on a calendar year basis. Second half distributions occur in a new fiscal year. Property taxes include amounts levied against all real, public utility, and tangible personal property (used in business) located in the School District. Real property taxes are levied after April 1 on the assessed value listed as of the prior January 1, the lien date. Public utility property taxes attached as a lien on December 31 of the prior year, were levied April 1 and are collected with real property taxes. Assessed values for real property taxes are established by State law at 35 percent of appraised market value. All property is required to be revalued every six years. Public utility property taxes are assessed on tangible personal property at 88 percent of true value (with certain exceptions) and on real property at 35 percent of true value. Tangible personal property taxes are levied after April 1 on the value listed as of December 31 of the current year. Tangible personal property assessments are 25 percent of true value.

**Northern Local School District  
Perry County**

NOTES TO FINANCIAL STATEMENTS - CONTINUED

NOTE C - PROPERTY TAXES - CONTINUED

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.

The School District receives property taxes from Perry, Fairfield and Licking Counties. 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, 2004, are available to finance fiscal year 2004 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

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

Real Property - Current Valuation	
Residential/Agricultural	\$163,215,850
Commercial Industrial	9,103,180
Public Utilities and Minerals	769,210
Tangible Personal Property	
General	5,103,719
Public Utilities	<u>20,331,380</u>
 Total Valuation	 <u>\$198,523,339</u>

The County Treasurer collects property tax on behalf of all taxing districts within the county. The County Auditor periodically remits to the taxing districts their portion of the tax collected.

NOTE D - DEBT OBLIGATIONS

Debt outstanding at June 30, 2004 consisted of the following:

School Improvement Bonds	
Principal outstanding, due 2004-2023	\$5,764,000
Interest rate	3.30% - 5.00%
 Permanent Improvement Tax Anticipation Notes	
Principal outstanding, due 2004-2009	\$1,500,000
Interest rate	5.32% - 5.65%
 School Energy Conservation Bonds	
Principal outstanding, due 2004-2008	\$ 340,000
Interest rate	4.35% - 4.50%

**Northern Local School District  
Perry County**

NOTES TO FINANCIAL STATEMENTS - CONTINUED

NOTE D - DEBT OBLIGATIONS - CONTINUED

The School Improvement Bonds were issued in 2002 and the proceeds were used for construction of new school facilities. These bonds are direct obligations of the District for which its full faith, credit, and resources are pledged and are payable from taxes levied on all taxable property within the District.

The Permanent Improvement Tax Anticipation Notes consist of school building renovation issues. Permanent improvement tax anticipation notes are direct obligations of the District for which its full faith, credit and resources are pledged and are payable from taxes levied on all taxable property within the District.

The School Energy Conservation Bonds were issued in 1998 and the proceeds were used to acquire and install equipment and other improvements for energy conservation purposes. These bonds are direct obligations of the District for which its full faith, credit and resources are pledged and are payable from taxes levied on all taxable property within the District, provided, however, that in each year, to the extent that funds are available from other sources, including savings generated by energy conservation measures by the District, the amount of such tax shall be reduced by the amount of such funds so available.

The annual principal requirements to amortize all outstanding debt as of June 30, 2004 are as follows:

June 30	School Improvement Bonds	Permanent Improvement Notes	Energy Conservation Bonds	Total
2005	\$ 215,000	\$ 250,000	\$ 60,000	\$ 525,000
2006	220,000	250,000	65,000	535,000
2007	230,000	250,000	70,000	550,000
2008	235,000	250,000	70,000	555,000
2009	245,000	250,000	75,000	570,000
2010-2014	969,000	250,000	-	1,219,000
2015-2019	1,600,000	-	-	1,600,000
2020-2024	2,050,000	-	-	2,050,000
Total	<u>\$5,764,000</u>	<u>\$1,500,000</u>	<u>\$340,000</u>	<u>\$7,604,000</u>

**Northern Local School District  
Perry County**

NOTES TO FINANCIAL STATEMENTS - CONTINUED

NOTE E - LEASE OBLIGATIONS

The District has several operating leases for office equipment. The annual requirements to amortize the leases as of June 30, 2004 are as follows:

<u>June 30</u>	<u>Amount</u>
2005	\$19,884
2006	19,884
2007	<u>19,884</u>
Total future minimum lease payments	<u>\$59,652</u>

Amounts paid for operating leases for the year ended June 30, 2004 were \$29,245.

NOTE F - RISK MANAGEMENT

The District is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees and natural disasters. During fiscal year ended June 30, 2004, the District contracted with various insurance companies for property and general liability insurance, including criminal, mechanical, electrical and pressure equipment, inland marine, and fleet coverage.

Settled claims have not exceeded any aforementioned commercial coverage in any of the past three years.

The District pays the State Workers' Compensation System a premium based on a rate per \$100 of salaries. This rate is calculated based upon accident history and administrative costs.

Self Insurance

Medical/surgical and dental insurance is offered to employees through a self-insurance internal service fund. The School District pays a monthly premium to United Healthcare, a third party administrator, who in turn pays the claims for the School District. The claims liability at June 30, 2004 is based on an estimate provided by an actuary and the requirements of Governmental Accounting Standards Board Statement No. 10, which requires that a liability for unpaid claim costs, including estimates of costs relating to incurred but not reported claims, be reported. A comparison of the Internal Service Fund cash and investments to the actuarially-measured liability as of June 30 follows:

	2004	2003
Cash and investments	\$130,040	\$136,372
Claims liabilities	\$ 10,898	\$ 34,911

**Northern Local School District  
Perry County**

NOTES TO FINANCIAL STATEMENTS - CONTINUED

NOTE G - RETIREMENT SYSTEMS

School Employees Retirement System

The Northern Local School District contributes to the School Employees Retirement System of Ohio (SERS), a cost sharing multiple employer public employee retirement system administered by the School Employees Retirement Board. SERS provides basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available financial report that includes financial statements and required supplementary information for SERS. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Columbus, Ohio 43215-3746 or by calling (614) 222-5853.

Plan members are required to contribute 10 percent of their annual covered salary. The current School District rate is 14 percent of annual covered payroll. A portion of the School District's contributions is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2004, 10 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2004, 2003 and 2002 were \$275,796, \$265,824, and \$256,884 respectively, which are equal to the required contributions for the year.

State Teachers Retirement System

The Northern Local School District contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available financial report that includes financial statements and required supplementary information for STRS. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771.

Plan members are required to contribute 10 percent of their annual covered salaries. The School District was required to contribute 14 percent; 10 percent was the portion used to fund pension obligations. 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, 2004, 2003 and 2002 were \$1,022,328, \$924,288, and \$887,208, respectively, which are equal to the required contributions for the year.

**Northern Local School District  
Perry County**

NOTES TO FINANCIAL STATEMENTS - CONTINUED

NOTE H - POSTEMPLOYMENT BENEFITS

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

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by the STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2003 (latest information available), the STRS Board allocated employer contributions equal to 4.5 percent of covered payroll to the Health Care Stabilization Fund. For the District, this amount equaled \$413,382 for the fiscal year ended June 30, 2004.

STRS pays health care benefits from the Health Care Stabilization Fund. The balance in the Fund was \$2.798 billion at June 30, 2003 (latest information available). For the year ended June 30, 2003, net health care costs paid by STRS were \$776,607,000 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, 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.

For the fiscal year 2003 (latest information available), employer contributions to fund health care benefits were 5.83 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and member's pay, prorated for partial service credit. For fiscal year 2003 (latest information available), the minimum pay has been established at \$14,500. 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 annual health care expenses. Expenses for health care for the year ended June 30, 2003 (latest information available), were \$204,930,737.

At June 30, 2003, SERS had net assets available for payment of health care benefits of \$303.6 million. SERS has approximately 64,251 participants currently receiving health care benefits. For the District, the amount to fund health care benefits, including surcharge, equaled \$535,559 for the fiscal year ended June 30, 2004.

**Northern Local School District  
Perry County**

NOTES TO FINANCIAL STATEMENTS - CONTINUED

NOTE I - SET-ASIDE CALCULATIONS AND FUND RESERVES

The School District is required by State statute to annually set aside, in the general fund, an amount based on a statutory formula for the purchase of textbooks and other instructional materials and an equal amount for the acquisition and construction of capital improvements. Amounts not spent by year-end or offset by similarly restricted resources received during the year must be held in cash at year-end and carried forward to be used for the same purposes in future years. The Budget Stabilization Reserve is now optional under Ohio Revised Code. However, the Board elected to continue funding this reserve as permissible by State statute.

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

	Textbooks	Capital Acquisition	Budget Stabilization	Totals
Set-aside cash balance as of June 30, 2003	\$(227,350)	\$(1,168,403)	\$370,966	\$(1,024,787)
Current year set-aside requirement	335,219	335,219	-	670,438
Qualifying disbursements	<u>(614,454)</u>	<u>(569,878)</u>	<u>-</u>	<u>(1,184,332)</u>
Set-aside balance as of June 30, 2004	<u>\$(506,585)</u>	<u>\$(1,403,062)</u>	<u>\$370,966</u>	<u>\$(1,538,681)</u>
Restricted cash balance carried forward to fiscal year 2005	<u>\$ -</u>	<u>\$ -</u>	<u>\$370,966</u>	<u>\$ 370,966</u>

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**Northern Local School District  
Perry County**

NOTES TO FINANCIAL STATEMENTS - CONTINUED

NOTE J – CONTRACTUAL COMMITMENTS

The district had the following contractual commitments at June 30, 2004 relating to construction of school facilities:

Paul Construction Company, Inc.	\$ 32,057
Howard's Sheet Metal	25,243
Stonecreek	1,532
Gutridge Plumbing	2,241,002
George J. Igel & Co.	8,434
XF Construction	28,519
Four Seasons Environmental	18,425
Claggett & Sons	4,200
Cardinal Environmental Services	18,710
Reliable Construction Heaters	9,485
Environmental Construction, Inc.	267,730
Robertson Construction Services	2,359,200
The Hattenbach Co.	112,615
Claypool Electric	1,220,000
CCTV Services, Inc.	22,000
C&T Design	6,657
GF Office Furniture, Ltd.	131,346
Groupe Lacasse LLC	36,975
Tom Sexton & Associates, Inc.	197,988
APEX/M&P	6,228
Architectural Sales, Inc.	<u>1,238</u>
	<u>\$6,749,583</u>

NOTE K – CAPITAL LEASE

The District leases certain equipment under a capital lease. The District entered into an agreement with IBM to finance computers for the amount of \$313,759 over two years at an interest rate of 6.35%. At June 30, 2004, the District has paid \$139,544 to IBM.

Future minimum lease payments under capital leases as of June 30, 2004 for each of the remaining years and in the aggregate are as follows:

2005	\$167,453
2006	<u>27,909</u>
Less: Interest	11,665
Present Value of Minimum Lease Payments	<u>\$183,697</u>

**Northern Local School District  
Perry County**

NOTES TO FINANCIAL STATEMENTS - CONTINUED

NOTE L – INSURANCE PURCHASING POOL

*Ohio School Boards Association Workers' Compensation Group Rating Plan* - The School District participates in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool. The GRP's business and affairs are conducted by a three member Board of directors consisting of the President, the President-Elect and the Immediate Past President of the OSBA. The Executive Director of the OSBA, or his designee, serves as coordinator of the program. Each year, the participating school districts pay an enrollment fee to the GRP to cover the costs of administering the program.

The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control and actuarial services to the GRP.

NOTE M - CONTINGENCIES

State School Funding Decision

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

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

**Northern Local School District  
Perry County**

NOTES TO FINANCIAL STATEMENTS - CONTINUED

NOTE N – JOINTLY GOVERNED ORGANIZATION

The School District is a participant in the Southeastern Ohio Voluntary Education Cooperative (SEOVEC), which is a computer consortium. (SEOVEC) is an association that services 30 entities within the boundaries of several counties. These entities consist of public school districts, private schools, and educational service centers. 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 (SEOVEC) consists of the superintendents from all participating districts. The continued existence of (SEOVEC) is not dependent on the School District's continued participation and no equity interest exists. The (SEOVEC) constitution states that any school district withdrawing from the Association prior to dissolution forfeits their claim to the Organization's fixed assets. The School District's total payment to (SEOVEC) for fiscal year ended June 30, 2004 was \$23,020. Financial statements for (SEOVEC) can be obtained from the Southeastern Ohio Voluntary Education Cooperative, 221 North Columbus Road, P.O. Box 1250, Athens, Ohio 45701.

NOTE O – OHIO SCHOOL FACILITIES PROGRAM

The Northern Local School District passed a 3.92 mill bond issue in order to secure over \$36,000,000 from the Ohio School Facilities Commission on November 7, 2000. The District's total project of approximately \$46,000,000 consists of a new high school, two new elementary buildings, and addition and renovation to the current middle/high school into a middle school. The projected completion date of the entire project is December 2004.

**Northern Local School District  
Perry County**

SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES

Year ended June 30, 2004

Federal Grantor/ Pass-Through Grantor/ Program or Cluster Title	Pass-through Entity Identifying Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
<b><u>U.S. Department of Agriculture</u></b>						
Passed through Ohio Department of Education						
Nutrition Cluster:						
Food Distribution Program		10.550	\$ -	\$ 44,731	\$ -	\$ 44,731
National School Breakfast Program	05-PU-03 & 04	10.553	24,628	-	24,628	-
National School Lunch Program	LL-P4-03&04	10.555	<u>141,814</u>	<u>-</u>	<u>141,814</u>	<u>-</u>
Total U.S. Department of Agriculture - Nutrition Cluster			<u>166,442</u>	<u>44,731</u>	<u>166,442</u>	<u>44,731</u>
<b><u>U.S. Department of Education</u></b>						
Passed through Ohio Department of Education						
Educationally Deprived Children Title I	C1-S1-03 & 04	84.010	335,953	-	407,894	-
Handicapped - State Grants Title VI-B	6B-SF-04	84.027	115,520	-	114,579	-
Innovative Strategy Title VI	C2-S1-03 & 04	84.298	2,407	-	9,004	-
Eisenhower	MS-S1-01 & 02	84.281	-	-	1,088	-
Drug Free Schools	DR-S1-04	84.186	2,359	-	14,002	-
Goals		84.276	-	-	1,380	-
Education Technology Title II-D	TJ-S1-03 & 04	84.318	1,319	-	8,045	-
Assistive Technology		84.352	-	-	3,512	-
Improving Teacher Quality	TR-S1-03 & 04	84.367	<u>99,901</u>	<u>-</u>	<u>170,135</u>	<u>-</u>
Total U.S. Department of Education			<u>557,459</u>	<u>-</u>	<u>729,639</u>	<u>-</u>
<b><u>U.S. Department of Health and Human Services</u></b>						
Passed through Ohio Department of Mental Retardation and Mental Disabilities						
Medical Assistance Program (CAFS)		93.778	<u>29,213</u>	<u>-</u>	<u>29,213</u>	<u>-</u>
Total Federal Assistance			<u>\$ 753,114</u>	<u>\$ 44,731</u>	<u>\$ 925,294</u>	<u>\$ 44,731</u>

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

**Northern Local School District  
Perry County**

NOTES TO SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES

Fiscal year ended June 30, 2004

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B - FOOD DISTRIBUTION

Non-monetary assistance, such as food received from the U. S. Department of Agriculture, is reported in the Schedule at the fair market value of the commodities received and consumed. Cash receipts from the U.S. Department of Agriculture are commingled with State grants. It is assumed federal monies are expended first. At June 30, 2004, the District had no significant food commodities in inventory.

The District uses the services of DJ Co-ops to hold, process, and deliver its federal commodities at a nominal rate.



## **Report on Compliance and on Internal Control Required by *Government Auditing Standards***

Board of Education  
Northern Local School District  
Thornville, Ohio 43076

We have audited the financial statements of Northern Local School District (the District) as of and for the year ended June 30, 2004 and have issued our report thereon dated October 11, 2004, wherein we noted the District continues to use the cash basis of accounting formally prescribed by the Auditor of the State of Ohio rather than accounting principles generally accepted in the United States of America, which is now required. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

### Compliance

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards*, which are described in the accompanying schedule of findings as items 2004-1 and 2004-2.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in

*Wilson, Shannon & Snow, Inc.*

**CERTIFIED PUBLIC ACCOUNTANTS**

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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.

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

*Wilson, Shuman & Snow, Inc.*

Newark, Ohio  
October 11, 2004



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

Board of Education  
Northern Local School District  
Thornville, Ohio 43076

### Compliance

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

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

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

### Internal Control Over Compliance

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

*Wilson, Shannon & Snow, Inc.*

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

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

*Wilson, Sherman & Snow, Inc.*

Newark, Ohio  
October 11, 2004

**Northern Local School District  
Perry County**

SCHEDULE OF FINDINGS  
OMB CIRCULAR A-133 §.505

June 30, 2004

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

<i>(d)(1)(i)</i>	<b>Type of Financial Statement Opinion</b>	Unqualified
<i>(d)(1)(ii)</i>	<b>Were there any material control weakness conditions reported at the financial statement level (GAGAS)?</b>	No
<i>(d)(1)(ii)</i>	<b>Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?</b>	No
<i>(d)(1)(iii)</i>	<b>Was there any reported material non-compliance at the financial statement level (GAGAS)?</b>	Yes
<i>(d)(1)(iv)</i>	<b>Were there any material internal control weakness conditions reported for major federal programs?</b>	No
<i>(d)(1)(iv)</i>	<b>Were there any other reportable internal control weakness conditions reported for major federal programs?</b>	No
<i>(d)(1)(v)</i>	<b>Type of Major Programs' Compliance Opinion</b>	Unqualified
<i>(d)(1)(vi)</i>	<b>Are there any reportable findings under § .510?</b>	No
<i>(d)(1)(vii)</i>	<b>Major Programs (list):</b>	Title I\84.010
<i>(d)(1)(viii)</i>	<b>Dollar Threshold: Type A\B Programs</b>	Type A: > \$ 300,000 Type B: all others
<i>(d)(1)(ix)</i>	<b>Low Risk Auditee?</b>	Yes

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

**2004 - 1.** Ohio Administrative Code Section 117-2-03 (B) requires the District to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America. However, the District prepares its financial statements on the basis of accounting formerly prescribed or permitted by the Auditor of the State of Ohio, which is a basis of accounting other than generally accepted accounting principles. The accompanying financial statements omit assets, liabilities, fund equities, and disclosures that, while material, cannot be determined at this time. The District can be fined and various other administrative remedies may be taken against the District.

**2004-2** Ohio Revised Code Section 5705.10 establishes guidance for distribution of revenue derived from tax levies, proceeds from sale of bond issue, and proceeds from sale of permanent improvement. The Section states that money that is paid into a fund must be used for only the purposes for which such fund has been established; as a result, a negative fund balance indicates that money from one fund was used to cover the expenses of another fund.

During fiscal year 2004, the Food Service (006) Enterprise Fund recorded cash deficits for eleven of the twelve months. The deficits ranged from \$15,092 to \$63,807. As a result of the cash deficits in the Food Service Funds, monies from the General Fund were used to supplement for any necessary Food Service Expenditures.

We recommend the District monitor and evaluate Food Service Fund expenses and charges for services to determine if measures can be taken to reduce and/or eliminate the monthly fund deficits.

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

None were noted

**Northern Local School District  
Perry County**

**CORRECTIVE ACTION PLAN**

JUNE 30, 2004

Finding Number	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person
2004-1	Preparation of annual financial report in accordance with GAAP.	This process will be implemented for fiscal year 2005	Liz Arnold, Treasurer
2004-2	Eliminate and/or reduce monthly deficits reported in the Food Service Fund.	This process will be implemented for fiscal year 2005	Liz Arnold Treasurer

**Northern Local School District  
Perry County**

**SCHEDULE OF PRIOR AUDIT FINDINGS**

June 30, 2004

The results of prior year tests disclosed the following instance of noncompliance that was required to be reported under *Government Auditing Standards* described below:

- 2003 - 1** Ohio Administrative Code Section 117-2-03 (B) requires the District to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America, unless a waiver is granted by the Auditor of the State of Ohio.

The District prepared its 2003 annual financial report on the cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles, without receiving a waiver from the Auditor of the State of Ohio. The 2003 financial statements omitted assets, liabilities, fund equities, and disclosures that, while material, could not be determined at that time. The District can be fined and various legal administrative remedies may be taken against the District by the State of Ohio.

The District still has not been granted a waiver from the State of Ohio and is continuing to prepare its financial statements on the cash basis of accounting. However, the District plans to prepare their financial statements in accordance with accounting principles generally accepted in the United States of America beginning with fiscal year ended June 30, 2005.

- 2003-2** Ohio Revised Code Section 5705.10 establishes guidance for distribution of revenue derived from tax levies, proceeds from sale of bond issue, and proceeds from sale of permanent improvement. The Section states that money that is paid into a fund must be used for only the purposes for which such fund has been established; as a result, a negative fund balance indicates that money from one fund was used to cover the expenses of another fund.

During fiscal year 2003, the Food Service (006) Enterprise Fund recorded cash deficits for eight of the twelve months. The deficits ranged from \$2,489 to \$34,708. As a result of the cash deficits in the Food Service Funds, monies from the General Fund were used to supplement for any necessary Food Service Expenditures.

The Food Service Fund continues to carry monthly deficits. Finding was re-issued for the 2004 audit as Finding 2004-2.



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**NORTHERN LOCAL SCHOOL DISTRICT  
PERRY COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
DECEMBER 7, 2004**