

**HARDIN NORTHERN LOCAL  
SCHOOL DISTRICT  
HARDIN, COUNTY**

**Regular Audit  
June 30, 2006**





Mary Taylor, CPA  
Auditor of State

Board of Education  
Hardin Northern Local School District  
11589 State Route 81  
Dola, Ohio 45835

We have reviewed the *Independent Accountants' Report* of the Hardin Northern Local School District, Hardin County, prepared by Perry & Associates, Certified Public Accountants, A.C., for the audit period July 1, 2005 through June 30, 2006. 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 Hardin Northern Local School District is responsible for compliance with these laws and regulations.

*Mary Taylor*

Mary Taylor, CPA  
Auditor of State

May 8, 2007

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**HARDIN NORTHERN LOCAL SCHOOL DISTRICT  
HARDIN COUNTY**

**TABLE OF CONTENTS**

<b>TITLE</b>	<b>PAGE</b>
Independent Accountants' Report .....	1-2
Managements Discussion and Analysis.....	3-8
Government-Wide Financial Statements:	
Statement of Net Assets.....	9
Statement of Activities .....	10
Fund Financial Statements:	
Balance Sheet – Governmental Funds .....	11
Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities .....	12
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds .....	13
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities .....	14
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget (Non-GAAP Basis) and Actual – General Fund .....	15
Statement Of Net Assets – Proprietary Fund.....	16
Statement of Revenues, Expenditures and Changes in Fund Balances – Proprietary Fund.....	17
Statement of Cash Flows – Proprietary Fund.....	18
Statement Of Fiduciary Net Assets – Fiduciary Funds.....	19
Statement of Changes in Fiduciary Net Assets – Fiduciary Funds.....	20
Notes to the Financial Statements .....	21-47
Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i> .....	47-49

***Perry & Associates***  
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**INDEPENDENT ACCOUNTANTS' REPORT**

March 15, 2007

Hardin Northern Local School District  
Hardin County  
11589 State Route 81  
Dola, Ohio 45835-9725

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of Hardin Northern Local School District, Hardin County, Ohio (the District), as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of Hardin Northern Local School District, as of June 30, 2006, and the respective changes in financial position and cash flows, were applicable, thereof and the budgetary comparison for the General fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 15, 2007, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Harding Northern Local School District  
Hardin, County  
Independent Accountants' Report  
Page 2

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

Respectfully Submitted,

**Perry and Associates**  
Certified Public Accountants, A.C.

**Hardin Northern Local School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2006*  
*Unaudited*

The discussion and analysis of Hardin Northern Local School District's (the "School District") financial performance provides an overall view of the School District's financial activities for the fiscal year ended June 30, 2006. 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 2006 are as follows:

- Net assets of governmental activities decreased \$189,359 while net assets of business-type activities increased \$693.
- General revenues accounted for \$3,558,406 in revenue or 85.7% of all revenues. Program specific revenues in the form of charges for services, grants and contributions accounted for \$593,799 or 14.3% of total revenues of \$4,152,205.
- The School District had \$4,341,564 in expenses related to government activities; only \$593,799 of these expenses was offset by program specific charges for services, grants and contributions. General revenues were not adequate to provide for these programs.
- The School District had \$154,003 in expenses related to business-type activities. Program revenues of \$127,013 were not adequate to provide for this service.
- Capital outlay additions of \$56,478 consisted of \$6,682 in Land Improvements, \$13,352 in building improvements and \$36,444 in furniture and equipment.

**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 School District as a financial whole, an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities.

The *Statement of Net Assets* and *Statement of Activities* provide information about the activities of the whole 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. In case of Hardin Northern Local School District, the general fund and permanent improvement funds are the only major funds.

**Reporting the School District as a Whole**

*Statement of Net Assets and the Statement of Activities*

While this document contains the large number of funds used by the School District to provide programs and activities, the view of the School District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2006?" 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.



**Hardin Northern Local School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2006*  
*Unaudited*

**Reporting the School District as a Whole (Continued)**

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 may be the result of many factors, some financial, some not. Non-financial factors include the School District's property tax base, current property 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, the School District is divided into two distinct kinds of activities:

- **Governmental Activities** - Most of the School District's programs and services are reported here including instruction, support services, operation and maintenance of plant, pupil transportation and extracurricular activities.
- **Business-Type Activities** - These services are provided on a charge for goods or services basis to recover all of the expenses of the goods or services provided. The School District food service and uniform school supplies are reported as business activities.

**Reporting the School District's Most Significant Funds**

*Fund Financial Statements*

Fund financial statements 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 and the permanent improvement 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 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 into cash. The governmental fund statements provide a detailed *short-term view* of the School District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental *activities* (reported in the Statement of Net Assets and the Statement of Activities) and governmental *funds* is reconciled in the financial statements.

**Proprietary Funds** Proprietary funds use the same basis of accounting as business-type activities; therefore, these statements will essentially match.

**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 2006 as compared to fiscal year 2005. Table 2 shows the changes in net assets for fiscal year 2006 compared to 2005.

**Hardin Northern Local School District**  
*Management's Discussion and Analysis*  
For the Fiscal Year Ended June 30, 2006  
Unaudited

Table 1  
NET ASSETS

	Governmental Activities		Business-Type Activities		Total	
	2006	2005	2006	2005	2006	2005
<b>Assets</b>						
Current Assets	\$ 2,384,827	\$ 2,461,650	\$ 3,673	\$ 6,029	\$ 2,388,500	\$ 2,467,679
Capital Assets	1,282,963	1,357,364	14,627	16,200	1,297,590	1,373,564
Total Assets	<u>3,667,790</u>	<u>3,819,014</u>	<u>18,300</u>	<u>22,229</u>	<u>3,686,090</u>	<u>3,841,243</u>
<b>Liabilities</b>						
Current Liabilities	1,228,444	1,076,412	19,322	22,709	1,247,766	1,099,121
Long-Term Liabilities	270,239	384,136	4,057	5,292	274,296	389,428
Total Liabilities	<u>1,498,683</u>	<u>1,460,548</u>	<u>23,379</u>	<u>28,001</u>	<u>1,522,062</u>	<u>1,488,549</u>
<b>Net Assets</b>						
Invested in Capital Assets, Net of Debt	1,241,974	1,276,102	14,627	16,200	1,256,601	1,292,302
Restricted	531,165	729,520	-	-	531,165	729,520
Unrestricted (Deficit)	395,968	352,844	(19,706)	(21,972)	376,262	330,872
Total Net Assets	<u>\$ 2,169,107</u>	<u>\$ 2,358,466</u>	<u>\$ (5,079)</u>	<u>\$ (5,772)</u>	<u>\$ 2,164,028</u>	<u>\$ 2,352,694</u>

**Governmental Activities**

The net assets of the School District's governmental activities decreased by \$189,359. Program revenue of \$593,799 and general revenues of \$3,558,406 did not offset total governmental expenses of \$4,341,564. Program revenues supported 14.3% of the total governmental expenses.

Table 2  
CHANGE IN NET ASSETS

	Governmental Activities		Business Type Activities		Totals	
	2006	2005	2006	2005	2006	2005
<b>Program Revenues:</b>						
Charges for Services	\$ 338,742	\$ 356,479	\$ 89,819	\$ 85,942	\$ 428,561	\$ 442,421
Operating Grants and Contributions	246,538	228,891	37,194	32,451	283,732	261,342
Capital Grants and Contributions	8,519	19,575	-	-	8,519	19,575
<b>General Revenues:</b>						
Property Taxes	684,539	1,002,757	-	-	684,539	1,002,757
Income Taxes	351,665	468,049	-	-	351,665	468,049
Grants and Entitlements	2,250,434	2,192,725	-	-	2,250,434	2,192,725
Unrestricted Investment Earnings	254,892	24,938	183	139	255,075	25,077
Miscellaneous	46,896	10,169	-	-	46,896	10,169
Transfers	(30,020)	(20,800)	27,500	20,800	(2,520)	-
Total Revenues	<u>4,152,205</u>	<u>4,282,783</u>	<u>154,696</u>	<u>139,332</u>	<u>4,306,901</u>	<u>4,422,115</u>

**Hardin Northern Local School District**  
*Management's Discussion and Analysis*  
For the Fiscal Year Ended June 30, 2006  
Unaudited

Table 2 (Continued)

**Expenses**

Program Expenses:

Instruction:

Regular	2,062,107	2,114,400	-	-	2,062,107	2,114,400
Special	391,608	451,571	-	-	391,608	451,571
Vocational	193,629	202,932	-	-	193,629	202,932

Support Services:

Pupils	152,844	98,216	-	-	152,844	98,216
Instructional Staff	118,176	66,688	-	-	118,176	66,688
Board of Education	25,152	16,963	-	-	25,152	16,963
Administration	360,856	415,603	-	-	360,856	415,603
Fiscal	215,846	193,377	-	-	215,846	193,377
Operation of Maintenance of Plant	311,783	279,002	-	-	311,783	279,002
Pupil Transportation	193,758	151,941	-	-	193,758	151,941
Non-Instructional Services	-	484	-	-	-	484
Extracurricular Activities	240,978	238,300	-	-	240,978	238,300
Facilities Acquisition Construction	72,990	80,083	-	-	72,990	80,083
Interest and Fiscal Charges	1,837	6,008	-	-	1,837	6,008
Food Service	-	-	154,003	150,975	154,003	150,975
Uniform School Supplies	-	-	-	262	-	262

Total Expenses	\$ 4,341,564	\$ 4,315,568	\$ 154,003	\$ 151,237	\$ 4,495,567	\$ 4,466,805
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Several revenue sources fund the School District's governmental activities with property tax and State foundation revenues being the largest contributors. Property tax levies generated \$684,539 in fiscal year 2006. General revenues from grants and entitlements, such as the school foundation program, generated \$2,250,434. These two revenue sources represent 54.2% of total governmental revenue.

Real estate property is reappraised every six years. Hardin County had its triennial update in calendar year 2005. Although historical growth has had a positive effect on the School District's tax base, the full tax revenue impact has not been realized due to H.B. 920. This state law, enacted in 1976, does not allow for revenue increases caused by inflationary growth of real property values. Increases in valuation prompt corresponding annual reductions in the "effective millage", the tax rates applied to real property. Thus, although the School District tax valuation continues to grow, this built-in revenue limitation requires the School District to request additional school operating revenue by placing a levy on the ballot every three to five years, on average.

The DeRolph III court case decisions have not eliminated the local dependence on property taxes. This factor continues to be a situation the School District has to deal with in providing funding for the program offering of the School District.

The statement of activities shows the cost of program services and the charges for services and grants attributable to those services. Instruction costs comprise 61.0% of governmental program expenses.

**Business-Type Activities**

Business-type activities consist of the food service and uniform school supplies operations. The food service program had revenues of \$154,696 and expenses of \$154,003. There was no activity in the uniform school supplies program for fiscal year 2006.

**Hardin Northern Local School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2006*  
*Unaudited*

**The School District's Funds**

The School District's major funds are accounted for using the modified accrual basis of accounting. The total revenues for governmental funds were \$4,248,638 and total expenditures were \$4,519,098. The School District expenditures exceeded the revenues by \$270,460.

The School District's general fund balance decreased by \$249,061. The decrease from last year can be attributed primarily to the overall increase in salaries, wages and fringe benefits along with revenues not keeping pace with the cost of operations.

**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 School District's general fund.

During fiscal year 2006, the School District amended its general fund balance. Budget revisions are presented to the Board of Education for approval. This year amendments were considered routine.

For the general fund, the final budget basis revenue estimate was \$4,030,616, which was higher than the original revenue estimate of \$3,957,116. Actual revenue on the budget basis was \$4,003,960.

The original expenditures estimate of \$4,223,833 was increased to \$4,274,646. The actual expenditures were \$4,086,242.

**Capital Assets and Debt Administration**

*Capital Assets*

At the end of fiscal year 2006, the School District had \$1,297,590 invested in land, buildings, equipment and vehicles. This is accounting for both Governmental Activities and Business-Type Activities assets. Table 3 below shows a comparison of fiscal year 2006 to 2005.

Capital Assets (Net of Depreciation)	Governmental Type Activities		Business Type Activities	
	2006	2005	2006	2005
Land	\$ 20,000	\$ 20,000	\$ -	\$ -
Land Improvements	87,590	92,196	-	-
Buildings and Improvements	865,493	878,064	-	-
Furniture and Equipment	273,598	319,026	14,627	16,200
School Buses and Vehicles	36,282	48,078	-	-
<b>Total Capital Assets</b>	<b>\$ 1,282,963</b>	<b>\$ 1,357,364</b>	<b>\$ 14,627</b>	<b>\$ 16,200</b>

**Hardin Northern Local School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2006*  
*Unaudited*

**Long-Term Liabilities**

As of June 30, 2006, the School District has \$25,000 in notes outstanding, which is due within one year. The school district also has a capital lease, and vested compensated absences. Table 4 summarizes long-term liabilities.

Table 4

	Governmental Activities 2006	Governmental Activities 2005
Outstanding Debt, at Year End		
Permanent Improvement Tax Anticipation Note 5.15%	\$ 25,000	\$ 50,000
Capital Lease Payable	15,989	31,262
Intergovernmental Payable (Pension Obligations)	-	42,106
Compensated Absences Payable (Vested Serverance)	229,250	260,769
Total	<u>\$ 270,239</u>	<u>\$ 384,137</u>

The School District faces many challenges in the future. As the preceding information shows, the School District relies heavily upon grants and entitlements and property taxes. Another challenge facing the School District is the future of state funding. The State of Ohio was found by the Ohio Supreme Court in March, 1997 to be operating an unconstitutional educational system, one that was neither "adequate" nor "equitable." Since 1997, the State has directed its tax revenue growth toward schools districts with little property tax wealth. On December 11, 2003, the Ohio Supreme Court issued an opinion regarding the State's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school-funding plan is unconstitutional. Since then, the Ohio Supreme Court has relinquished jurisdiction over the case and directed the Ohio General Assembly to enact a school-funding plan 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.

Due to the unsettled issues in Ohio public school funding, district management is required to plan carefully and prudently to provide the resources to meet student needs in the future.

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

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the School District's finances and show the School District's accountability for the money it receives. If you have any questions about this report or need financial information contact, Mr. Wes Potter, Treasurer of Hardin Northern Local School District, 11589 State Route 81, Dola, Ohio 45835.

**Hardin Northern Local School District**  
*Statement of Net Assets*  
For the Fiscal Year Ended June 30, 2006

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<u>Assets:</u>			
Equity in Pooled Cash and Cash Equivalents	\$ 786,427	\$ 68	\$ 786,495
Cash and Cash Equivalents:			
With Fiscal Agents	176	-	176
Receivables:			
Property Taxes	898,743	-	898,743
Intergovernmental	86,064	2,959	89,023
Income Tax	317,280	-	317,280
Accrued Interest Receivable	3,318	-	3,318
Prepaid Items	34,119	2,514	36,633
Inventory Held for Resale	-	2,832	2,832
Interfund Balance	4,700	(4,700)	-
Restricted Assets:			
Equity in Pooled Cash and Cash Equivalents	254,000	-	254,000
Land	20,000	-	20,000
Capital assets, net of depreciation	1,262,963	14,627	1,277,590
Total Assets	3,667,790	18,300	3,686,090
<u>Liabilities</u>			
Accounts Payable	12,054	-	12,054
Accrued Wages	304,967	13,503	318,470
Intergovernmental Payable	84,054	5,819	89,873
Deferred Revenue	827,305	-	827,305
Accrued Interest Payable	64	-	64
Long-Term Liabilities			
Due within one year	51,438	4,057	55,495
Due in more than one year	218,801	-	218,801
Total Liabilities	1,498,683	23,379	1,522,062
<u>Net Assets</u>			
Invested in Capital Assets, Net of Related Debt	1,241,974	14,627	1,256,601
Restricted for:			
Capital Projects	214,721	-	214,721
Other Purposes	302,765	-	302,765
Unrestricted (deficit)	409,647	(19,706)	389,941
Total Net Assets	\$ 2,169,107	\$ (5,079)	\$ 2,164,028

See accompanying notes to the basis financial statements.

**Hardin Northern Local School District**  
*Statement of Activities*  
For the Fiscal Year Ended June 30, 2006

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		Total
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	
<b>Primary government:</b>							
Governmental Activities:							
Instruction:							
Regular	\$ 2,062,107	\$ 249,883	\$ 19,026	\$ 937	\$ (1,792,261)		\$ (1,792,261)
Special	391,608	88,859	149,538	-	(153,211)		(153,211)
Vocational	193,629	-	2,228	-	(191,401)		(191,401)
Support Services:							
Pupils	152,844	-	9,409	-	(143,435)		(143,435)
Instructional Staff	118,176	-	52,444	-	(65,733)		(65,733)
Board of Education	25,152	-	-	-	(25,152)		(25,152)
Administration	360,856	-	13,894	-	(346,962)		(346,962)
Fiscal	215,846	-	-	426	(215,420)		(215,420)
Operation and Maintenance	311,783	-	-	7,156	(304,627)		(304,627)
Pupil Transportation	193,758	-	-	-	(193,758)		(193,758)
Extracurricular Activities	240,978	-	-	-	(240,978)		(240,978)
Facilities and Acquisition and Construction Services	72,990	-	-	-	(72,990)		(72,990)
Interest and Fiscal Charges	1,837	-	-	-	(1,837)		(1,837)
Total Governmental Activities	<u>4,341,564</u>	<u>338,742</u>	<u>246,538</u>	<u>8,519</u>	<u>(3,747,765)</u>		<u>(3,747,765)</u>
Business-Type Activities:							
Food Service	154,003	89,819	37,194	-	-	(26,990)	(26,990)
Total Business-Type Activities	<u>154,003</u>	<u>89,819</u>	<u>37,194</u>	<u>-</u>	<u>-</u>	<u>(26,990)</u>	<u>(26,990)</u>
Total Primary Government	<u>\$ 4,495,567</u>	<u>\$ 428,561</u>	<u>\$ 283,732</u>	<u>\$ 8,519</u>	<u>\$ (3,747,765)</u>	<u>\$ (26,990)</u>	<u>\$ (3,774,755)</u>
General revenues:							
Taxes:							
Property taxes, levied for general purposes					636,285	-	636,285
Property taxes, levied for capital projects					48,254	-	48,254
Income taxes, levied for general purpose					563,185	-	563,185
Grants and Entitlements not Restricted to Specific Purposes					2,250,434	-	2,250,434
Unrestricted investment earnings					43,372	183	43,555
Miscellaneous					46,896	-	46,896
Transfers					(30,020)	27,500	(2,520)
Total general revenues					<u>3,558,406</u>	<u>27,683</u>	<u>3,586,089</u>
Change in net assets					(189,359)	693	(188,666)
Net Assets, June 30, 2005					<u>2,358,466</u>	<u>(5,772)</u>	<u>2,352,694</u>
Net Assets, June 30, 2006					<u>\$ 2,169,107</u>	<u>\$ (5,079)</u>	<u>\$ 2,164,028</u>

See accompanying notes to the basic financial statements.

**Hardin Northern Local School District**  
*Balance Sheet*  
*Governmental Funds*  
*June 30, 2006*

	General	Permanent Improvement Fund	Other Governmental Funds	Total Governmental Funds
<u>Assets:</u>				
Equity in Pooled Cash and Cash Equivalents	\$ 494,339	\$ 208,556	\$ 83,532	\$ 786,427
Cash and Cash Equivalents:				
With Fiscal Agents	-	-	176	176
Receivables:				
Taxes	831,564	67,179	-	898,743
Intergovernmental	35,041	-	51,023	86,064
Income Taxes	317,280	-	-	317,280
Accrued Interest	3,318	-	-	3,318
Interfund Receivable	4,700	-	-	4,700
Prepaid Items	33,341	-	778	34,119
Restricted Assets:				
Equity in Pooled Cash and Cash Equivalents	254,000	-	-	254,000
Total Assets	<u>1,973,583</u>	<u>275,735</u>	<u>135,509</u>	<u>2,384,827</u>
<u>Liabilities:</u>				
Accounts Payable	2,313	4,140	5,601	12,054
Accrued Wages	296,188	-	8,779	304,967
Intergovernmental Payable	81,766	-	2,288	84,054
Deferred Revenue	892,204	63,534	46,426	1,002,164
Total Liabilities	<u>1,272,471</u>	<u>67,674</u>	<u>63,094</u>	<u>1,403,239</u>
<u>Fund Balances:</u>				
Reserved for Encumbrances	6,738	-	4,074	10,812
Reserved for Property Taxes	45,120	3,645	-	48,765
Reserved for Textbooks	236,684	-	-	236,684
Reserved for Budget Stabilization	17,316	-	-	17,316
Unreserved, Reported in:				
General Fund	395,254	-	-	395,254
Special Revenue Funds	-	-	60,735	60,735
Capital Projects Funds	-	204,416	7,606	212,022
Total Fund Balances	<u>701,112</u>	<u>208,061</u>	<u>72,415</u>	<u>981,588</u>
Total Liabilities and Fund Balances	<u>\$ 1,973,583</u>	<u>\$ 275,735</u>	<u>\$ 135,509</u>	<u>\$ 2,384,827</u>

See accompanying notes to the basic financial statements.



**Hardin Northern Local School District**  
*Reconciliation of Total Governmental Fund Balances to  
 Net Assets of Governmental Activities  
 Governmental Funds  
 June 30, 2006*

Total Governmental Fund Balances	\$	981,588
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*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.		1,282,963
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Other long-term assets are not available to pay current period expenditures and therefore are deferred in the funds

Deferred Revenue-Property Taxes		35,843
Deferred Revenue-Intergovernmental Grants		33,256
Deferred Revenue-Income Taxes		105,760

Some liabilities are not due and payable in the current period and therefore are not reported in the funds:

Accrued Interest Payable		(64)
Notes Payable		(25,000)
Compensated Absences Payable		(229,250)
Capital Lease Payable		(15,989)

Net Assets of Governmental Activities		\$ 2,169,107
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See accompanying notes to the basis financial statements.

**Hardin Northern Local School District**  
*Statement of Revenues, Expenditures  
and Changes in Fund Balances  
Governmental Funds  
For the Fiscal Year Ended June 30, 2006*

	General	Permanent Improvement	Other Governmental Funds	Total Governmental Funds
<b>Revenues:</b>				
Taxes	\$ 612,486	\$ 49,248	\$ -	\$ 661,734
Intergovernmental	2,250,434	8,519	256,075	2,515,028
Investment Income	43,233	-	139	43,372
Tuition	231,680	-	-	231,680
Extracurricular Activities	-	-	88,859	88,859
Classroom Materials and Fees	18,203	-	-	18,203
Income Taxes	541,701	-	-	541,701
Miscellaneous	21,674	-	25,222	46,896
<b>Total Revenue</b>	<b>3,719,411</b>	<b>57,767</b>	<b>370,295</b>	<b>4,147,473</b>
<b>Expenditures:</b>				
<b>Current:</b>				
<b>Instruction:</b>				
Regular	2,064,171	4,140	24,074	2,092,385
Special	265,297	-	129,238	394,535
Vocational	193,266	-	658	193,924
Other	-	-	6,727	6,727
<b>Support Services:</b>				
Pupils	136,474	-	15,089	151,563
Special Instruction	52,679	-	68,934	121,613
Board	25,152	-	-	25,152
Administration	364,006	-	15,936	379,942
Fiscal	213,072	1,966	-	215,038
Operation and Maintenance	289,482	30,853	-	320,335
Pupil Transportation	197,392	-	-	197,392
Operation of Non-Instructional	-	-	-	-
Extracurricular Activities	122,188	-	124,883	247,071
<b>Debt Service:</b>				
Principal Retirement	15,273	-	25,000	40,273
Interest and Fiscal Charges	-	-	1,963	1,963
<b>Total Expenditures</b>	<b>3,938,452</b>	<b>36,959</b>	<b>412,502</b>	<b>4,387,913</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>(219,041)</b>	<b>20,808</b>	<b>(42,207)</b>	<b>(240,440)</b>
<b>Other Financing Sources (Uses):</b>				
Transfers In	68,375	-	32,790	101,165
Transfers Out	(98,395)	(26,963)	(5,827)	(131,185)
<b>Total Other Sources (Uses)</b>	<b>(30,020)</b>	<b>(26,963)</b>	<b>26,963</b>	<b>(30,020)</b>
<b>Net Change in Fund Balance</b>	<b>(249,061)</b>	<b>(6,155)</b>	<b>(15,244)</b>	<b>(270,460)</b>
<b>Fund Balances (Deficit) at Beginning of Year</b>	<b>950,173</b>	<b>214,216</b>	<b>87,659</b>	<b>1,252,048</b>
<b>Fund Balances (Deficits) End of Year</b>	<b>\$ 701,112</b>	<b>\$ 208,061</b>	<b>\$ 72,415</b>	<b>\$ 981,588</b>

See accompanying notes to the basic financial statements.

**Hardin Northern Local School District**  
*Reconciliation of the Statement of Revenues, Expenditures and Changes  
in Fund Balances of Governmental Funds to the Statement of Activities  
Governmental Funds  
For the Fiscal Year Ended June 30, 2006*

Net Change in Fund Balances - Total Governmental Funds \$ (270,460)

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

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

Capital Outlays	56,478	
Depreciation Expense	<u>(130,879)</u>	(74,401)

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

Property Taxes	22,805	
Income Taxes	21,484	
Intergovernmental Grants	<u>(2,810)</u>	41,479

Repayment of note and capital lease principal is an expenditure  
in the governmental funds but the repayment reduces  
long-term liabilities in the Statement of net assets.

Principal Payments		40,273
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In the statement of activities, interest is accrued on  
an outstanding note, whereas in governmental funds, an  
interest expenditure is reported when due.

126

Some expenses reported in the statement of activities,  
such as compensated absences and intergovernmental  
payable which represents contractually required  
pension contributions, do not require the use of current financial  
resources and therefore are not reported as expenditures  
governmental funds.

Compensated Absences	31,518	
Pension Obligations	<u>42,106</u>	<u>73,624</u>

Change in Net Assets of Governmental Activities \$ (189,359)

See accompanying notes to the basis financial statements.

**Hardin Northern School District**  
*Statement of Revenues, Expenditures and Changes  
in Fund Balance - Budget (Non-GAAP) and Actual  
General Fund  
For the Fiscal Year Ended June 30, 2006*

	Budgeted Amounts		Actual	Variance Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Taxes	\$ 898,000	\$ 916,747	\$ 909,714	\$ (7,033)
Intergovernmental	2,226,821	2,232,073	2,215,393	(16,680)
Investment Income	30,000	36,800	39,915	3,115
Tuition	219,715	233,312	231,680	(1,632)
Classroom Materials and Fees	16,205	20,394	18,228	(2,166)
Income Taxes	490,000	498,734	498,734	-
Miscellaneous Revenue	6,000	24,181	21,921	(2,260)
Total Revenue	3,886,741	3,962,241	3,935,585	(26,656)
Expenditures:				
Current:				
Instruction:				
Regular	2,089,472	2,105,162	2,104,718	444
Special	363,391	322,564	268,277	54,287
Vocational	248,698	248,102	201,379	46,723
Support Services:				
Pupils	142,419	142,867	134,064	8,803
Instructional Staff	59,000	62,064	43,183	18,881
Board of Education	17,796	24,160	21,252	2,908
Administration	369,663	398,052	388,266	9,786
Fiscal	218,060	232,635	210,101	22,534
Operation and Maintenance	303,133	306,226	295,989	10,237
Pupil Transportation	187,266	191,304	177,503	13,801
Extracurricular Activities	96,400	123,142	123,142	-
Debt Service:				
Principal Retirement	18,535	15,273	15,273	-
Total Expenditures	4,113,833	4,171,551	3,983,147	188,404
Excess of Revenues Over (Under) Expenditures	(227,092)	(209,310)	(47,562)	161,748
Other Financing Sources (Uses):				
Refund of Prior Year Expenditures	2,000	-	-	-
Transfers In	68,375	68,375	68,375	-
Transfers Out	(110,000)	(98,395)	(98,395)	-
Advances Out	-	(4,700)	(4,700)	-
Total Other Sources (Uses)	(39,625)	(34,720)	(34,720)	-
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Uses	(266,717)	(244,030)	(82,282)	161,748
Fund Balances (Deficit) at Beginning of Year	781,565	781,565	781,565	-
Prior Year Encumbrances Appropriated	40,005	40,005	40,005	-
Fund Balances (Deficit) at End of Year	\$ 554,853	\$ 577,540	\$ 739,288	\$ 161,748

**Hardin Northern Local School District**  
*Statement of Net Assets*  
*Proprietary Funds*  
*June 30, 2006*

	Food Service	Uniform School Supplies	Total
<u>Assets:</u>			
Equity in Pooled Cash and Cash Equivalents	\$ 3	\$ 65	\$ 68
Intergovernmental Receivables	2,959	-	2,959
Prepaid Items	2,514	-	2,514
Inventory Held for Resale	2,832	-	2,832
Total Current Assets	8,308	65	8,373
Capital Assets, Net	14,627	-	14,627
Total Assets	22,935	65	23,000
<u>Liabilities:</u>			
Accrued Wages	13,503	-	13,503
Intergovernmental Payable	5,819	-	5,819
Interfund Payable	4,700	-	4,700
Compensated Absences Payable	4,057	-	4,057
Total Current Liabilities	28,079	-	28,079
<u>Net Assets:</u>			
Invested in Capital Assets, Net of Related Debt	14,627	-	14,627
Unrestricted	(19,771)	65	(19,706)
Total Net Assets	\$ (5,144)	\$ 65	\$ (5,079)

See accompanying notes to the basis financial statements.

**Hardin Northern Local School District**  
*Statement of Revenues, Expenses  
and Changes in Fund Net Assets  
Proprietary Funds  
For the Fiscal Year Ended June 30, 2006*

	Business-Type Activities - Enterprise Funds		
	Food Service	Uniform School Supplies	Totals
<u>Operating Revenues:</u>			
Food Services	\$ 89,819	\$ -	\$ 89,819
Total Operating Revenues	89,819	-	89,819
 <u>Operating Expenses:</u>			
Salaries	57,260	-	57,260
Fringe Benefits	37,348	-	37,348
Purchased Services	861	-	861
Materials and Supplies	6,878	-	6,878
Cost of Sales	49,773	-	49,773
Depreciation	1,573	-	1,573
Other	310	-	310
Total Operating Expenses	154,003	-	154,003
Operating Income (Loss)	(64,184)	-	(64,184)
 <u>Non-Operating Revenues (Expenses):</u>			
Federal Donated Commodities	5,995	-	5,995
Operating Grants	31,199	-	31,199
Interest Income	183	-	183
Total Non-Operating Revenues (Expenses)	37,377	-	37,377
Income (Loss) before contributions and transfers	(26,807)	-	(26,807)
Transfers in	33,000	-	33,000
Transfers out	(5,500)	-	(5,500)
Change in Net Assets	693	-	693
Total Net Assets at Beginning of Year	(5,837)	65	(5,772)
Total Net Assets at End of Year	\$ (5,144)	\$ 65	\$ (5,079)

See accompanying notes to the basic financial statements.

**Hardin Northern Local School District**  
*Statement of Cash Flows - Proprietary Fund*  
For the Fiscal Year Ended June 30, 2006

	Food Service	Uniform School Supplies	Total Business-Type Activities Enterprise Fund
<b>Increase (Decrease) in Cash and Cash Equivalents</b>			
<b>Cash Flows from Operating Activities:</b>			
Cash Received from Student Food Charges	\$ 89,819	\$ -	\$ 89,819
Cash Payments to Suppliers for Goods and Services	(51,417)	-	(51,417)
Cash Payments to Employees for Services	(61,882)	-	(61,882)
Cash Payments for Employee Benefits	(37,953)	-	(37,953)
Cash Payments for Other	(310)	-	(310)
Net Cash Provided by (Used in) Operating Activities	(61,743)	-	(61,743)
<b>Cash Flows from Noncapital Financing Activities:</b>			
Operating Grants Received	28,240	-	28,240
Short-Term Loans from Other Funds	4,700	-	4,700
Transfers In	33,000	-	33,000
Transfers Out	(5,500)	-	(5,500)
Net Cash Provided by Noncapital Financing Activities	60,440	-	60,440
<b>Cash flows from Investing Activities:</b>			
Interest on Investments	183	-	183
Net Cash Provided by Investing Activities	183	-	183
Net Increase (Decrease) in Cash and Cash Equivalents	(1,120)	-	(1,120)
Cash and Cash Equivalents Beginning of Year	1,123	65	1,188
Cash and Cash Equivalents End of Year	\$ 3	\$ 65	\$ 68
<b>Reconciliation of Operating Loss to Net Cash Provided by (Used in) Operating Activities</b>			
Operating Income (Loss)	\$ (64,184)	\$ -	\$ (64,184)
Adjustments:			
To reconcile operating income (loss) to Net Cash:			
Depreciation	1,573	-	1,573
Commodities Used	5,995	-	5,995
Nonoperating Change in Accruals	2,959	-	2,959
(Increase) Decrease in Assets:			
Intergovernmental Receivable	(2,959)	-	(2,959)
Prepaid Items	(605)	-	(605)
Inventory Held for Resale	100	-	100
Increase (Decrease) in Liabilities:			
Accrued Wages	(242)	-	(242)
Compensated Absences Payable	(1,235)	-	(1,235)
Intergovernmental Payable	(3,145)	-	(3,145)
Total Adjustments	2,441	-	2,441
Net Cash Provided by Operating Activities	\$ (61,743)	\$ -	\$ (61,743)

See accompanying notes to the basic financial statements.

**Hardin Northern Local School District**  
*Statement of Fiduciary Net Assets*  
*Fiduciary Funds*  
*June 30, 2006*

	Private Purpose Trust	
	Scholarship	Agency
<u>Assets:</u>		
Equity in Pooled Cash and Cash Equivalents	\$ 307	\$ 32,939
Account Receivable	-	200
	307	33,139
Total Current Assets		
	307	33,139
Total Assets	\$ 307	\$ 33,139
 <u>Liabilities:</u>		
Accounts Payable	\$ -	\$ 231
Due to Students	-	32,908
	-	32,908
Total Current Liabilities		
	-	\$ 33,139
Total Liabilities	-	
 <u>Net Assets:</u>		
Unrestricted:		
Held in Trust for Scholarship	307	
Total Net Assets	\$ 307	

See accompanying notes to the basic financial statements.



**Hardin Northern Local School District**  
*Statement of Changes in Fiduciary Net Assets*  
*Fiduciary Funds*  
*For the Fiscal Year Ended June 30, 2006*

	Private Purpose Trust
	Scholarship
<u>Additions:</u>	
Other Operating Revenue	\$ 300
Total Additions	300
 <u>Deductions</u>	
Other Operating Expenses	298
Total Deductions	298
Change in Net Assets	2
Net Assets Beginning of Year	305
Net Assets End of Year	\$ 307

See accompanying notes to the basic financial statements.

**HARDIN NORTHERN LOCAL SCHOOL DISTRICT  
HARDIN COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

**NOTE 1 -- DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY**

The Hardin Northern Local School District (School District) is organized under Article VI, Sections 2 and 3 of the Constitution of the State of Ohio. The School District operates under an elected Board of Education (5 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 1952. The School District serves an area of approximately eighty-eight square miles. It is located in Hardin and Hancock Counties and includes all of Blanchard and Washington Townships and portions of Pleasant, Cessna, Van Buren and Jackson Townships. It is staffed by forty certificated employees and nineteen non-certificated personnel who provide services to four hundred seventy-three students and other community members. Local school districts are supervised by the county board of education, a separate entity.

A reporting entity is comprised of the primary government, component units, and other organizations that are included to insure that the financials 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 Hardin Northern Local School District, this includes general operation, 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; 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. Components units may also include organizations that are fiscally dependent on the School District in that the School District approves their budget, the issuance of their debt or the levying of their taxes. There are no component units of the School District.

The School District participates in six jointly governed organizations and three insurance pools, and is associated with a related organization. These organizations are the Western Ohio Computer Organization, Apollo Career Center, West Central Regional Professional Development Center, Hardin County Schools Consortium, Local Professional Development Committee, Northwestern Ohio Educational Research Council, Inc., West Central Ohio Special Education Regional Resource Center, Ohio Association of School Business Officials, Workers' Compensation Group Rating Plan, Hardin County School Employees' Health and Welfare Benefit Plan and Trust, and the Hardin Northern Public Library. These organizations are discussed in Notes 18, 19, and 20 to the basic financial statements.

**NOTE 2 -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the School District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The School District also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, to its governmental and business-type activities and to its enterprise funds provided they do not conflict with or contradict GASB pronouncements. Following are the more significant of the School District's accounting policies.

**HARDIN NORTHERN LOCAL SCHOOL DISTRICT  
HARDIN COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

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

**A. 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.

**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 statements distinguish between those activities of the School District that are governmental and those that are considered business-type activities.

The statement of net assets presents the financial condition of the governmental and business-type activities of the School District at fiscal year-end. The government-wide statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the School District and for each function or program 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 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, with certain limited exceptions. 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 governmental and enterprise fund financial statements is on major funds rather than reporting Funds by type. Each major fund is presented in a single column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

**B. Fund Accounting**

The School District uses funds to maintain its financial records during the fiscal year. Fund accounting is designed to demonstrate legal compliance and to aid 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. The various funds of the School District are classified into three categories: governmental, proprietary and fiduciary.

**Governmental Funds**

Governmental funds focus on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may be or must be used. Current liabilities are assigned to the fund from which they will be paid.

**HARDIN NORTHERN LOCAL SCHOOL DISTRICT  
HARDIN COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

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

The difference between governmental fund assets and liabilities is reported as fund balance. The General Fund and the Permanent Improvement Fund are the School District's major governmental funds:

**General Fund**

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

**Permanent Improvement Fund**

The permanent improvement capital projects fund accounts for financial resources to be used for the acquisition, construction, or improvement of capital facilities other than those financed by proprietary and trust funds.

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

**Proprietary Funds**

Proprietary funds focus on the determination of the changes in net assets, financial position and cash flows and are classified as either enterprise or internal service; the School District has no internal service funds.

**Enterprise Funds** Enterprise funds may be used to account for any activity for which a fee is charged to external users for goods or services.

**Food Service** - The Food Service enterprise fund accounts for the financial transactions related to the food service operations of the School District.

**Uniform Supplies** - This fund accounts for the purchase and sale of school supplies for use in the School District. Profits derived from such sales are used for school purposes or activities connected with the school.

**Fiduciary Funds** Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the School District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the School District's own programs. The School District's only trust fund is a private purpose trust, which accounts for a scholarship program for students. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. Monies are due to students for activities they have participated in.

**C. 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 and decreases in net assets.

**HARDIN NORTHERN LOCAL SCHOOL DISTRICT  
HARDIN COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

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

**Fund Financial Statements** All governmental fund types are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures and changes in fund balances, which reports on the sources (i.e., revenues and others 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 activities and governmental funds.

Like the government-wide statements, all proprietary fund types are accounted for on a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of these funds are included on the statement of net assets. The statement of changes in fund net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flows provides information about how the School District finances and meets the cash flow needs of its proprietary activities.

The private purpose trust is reported using the economic resources measurement focus.

**D. Basis of Accounting**

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting. Differences in the accrual and modified accrual bases 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. 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 thirty days of fiscal year-end.

Non-exchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. 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 fiscal year when the resources are required to be used of the fiscal year when use is first permitted, matching requirements, in which the School District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

**HARDIN NORTHERN LOCAL SCHOOL DISTRICT  
HARDIN COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

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

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at fiscal year-end: property taxes available as an advance, interest, tuition, grants, student fees and rentals.

**Deferred Revenue**

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Delinquent property taxes and property taxes for which there is an enforceable legal claim as of June 30, 2006, but which were levied to finance fiscal year 2006 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are meant 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.

**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 fiscal 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. Allocation of cost, such as depreciation and amortization, are not recognized in governmental funds.

**E. Budgetary Process**

All funds, other than 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 set 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 object level within each fund and function.

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 and final budgeted amounts in the budgetary statements reflect the amounts in the certificate when the original and final appropriations were adopted.

The appropriation resolution is subject to amendment by the Board throughout the year with the restriction that appropriations may not exceed estimated revenues. The amounts reported as the original 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.

**HARDIN NORTHERN LOCAL SCHOOL DISTRICT  
HARDIN COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

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

**F. Cash and Investments**

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

During fiscal year 2006, investments were limited to nonnegotiable certificates of deposit, savings accounts and STAR Ohio. Except for investment contracts and money market investments that had a remaining maturity of one year or less at the time of purchase, investments are reported at fair value, which is based on quoted market prices. Investment contracts and money market investments that had a maturity of one year or less at the time of purchase are reported at cost or amortized cost.

The School District has invested funds in the State Treasury Asset Reserve of Ohio (STAR Ohio) during fiscal year 2006. 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, 2006.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2006 amounted to \$39,915, which includes \$11,656 assigned from other School District Funds.

For presentation on the financial statements, investments of the cash management pool and investments with an original maturity of three months or less at the time they are purchased by the School District are considered to be cash equivalents. Investments with an initial maturity of more than three months that are not purchased from the pool are reported as investments.

**G. Restricted Assets**

Restricted assets in the general fund represent cash and cash equivalents set aside to establish budget stabilization and textbook reserves. The budget reserve is required by State statute and can be used only after receiving approval from the State Superintendent of Public Instruction. The textbook reserve is required to be spent only on textbooks for the School District. At fiscal year end, restricted assets totaled \$254,000.

**H. Prepaid Items**

Payments made to vendors for services that will benefit periods beyond June 30, 2006, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of purchased by the School District are reported as cash equivalents.

**I. Inventories**

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.

**HARDIN NORTHERN LOCAL SCHOOL DISTRICT  
HARDIN COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

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

On the fund financial statements, inventories of proprietary funds are stated at the lower of cost or market. For all funds, cost is determined on a first-in/first-out (FIFO) basis. Inventories of proprietary funds consist of donated food and purchased food and are expensed when used.

**J. Capital Assets**

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the government 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. Capital assets utilized by the Food Service enterprise fund are reported both in the business-type activities column of the government-wide statement of net assets and in the fund.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the fiscal 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 dollars. The School District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. Interest incurred during the construction of capital assets is also capitalized.

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful life 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	15
Buildings and Improvements	40
Furniture and Equipment	10
Vehicles	10

**K. Compensated Absences**

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

Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the School District has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employees' wage rates at fiscal year end, taking into consideration any limits specified in the School District's termination policy. The School District records a liability for accumulated unused sick leave for all employees.

The total liability for vacation and severance payments has been calculated using pay rates in effect at the balance sheet date, and reduced to the maximum payment allowed by labor contract and/or statute, plus any applicable additional salary related payments.



**HARDIN NORTHERN LOCAL SCHOOL DISTRICT  
HARDIN COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

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

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

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

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities and long-term obligations payable from proprietary funds are reported on the proprietary fund financial statements.

In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, claims and judgments, the noncurrent portion of capital leases, 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 statements only to the extent they will be paid with current, expendable, available resources. In general, payments made within thirty days after year-end are considered to have been made with current available financial resources. Bonds and other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

**M. Net Assets**

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through 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.

**N. Fund Balances Reserves**

The School District reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved balance indicates that portion of fund equity, which is available for appropriation in future periods. Fund equity reserves have been established for encumbrances, property taxes, textbooks and budget stabilization in the governmental funds. The principal amount of the private purpose trust endowments is reserved in the fiduciary funds.

The reserve for property taxes represents taxes recognized as revenue under generally accepted accounting principles but not available for appropriation under State statute. The reserve for budget stabilization and textbooks represents money required to be set-aside by statute to protect against cyclical changes in revenue and expenditures.

**O. Operating Revenues and Expense**

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds.

**HARDIN NORTHERN LOCAL SCHOOL DISTRICT  
HARDIN COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

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

For the School District, these revenues are sales for food service and uniform school supplies. Operating expenses are necessary costs incurred to provide the good or service that is the primary activity of the fund.

**P. Interfund Transactions**

Transfers between governmental and business-type activities on the governmental-wide statements are reported in the same manner as general revenues.

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

**Q. Estimates**

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

**R. Extraordinary and Special Items**

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal 2006.

**NOTE 3 -- BUDGETARY BASIS OF ACCOUNTING**

While the School District is reporting financial position, results of operations and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The Statement of Revenues, Expenditures and Changes in Fund Balances - Budget (Non-GAAP Basis) and Actual presented for the general fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and GAAP basis are the following:

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures (budget basis) rather than as a reservation of fund balance (GAAP basis).

The following table summarizes the adjustments necessary to reconcile the GAAP and budgetary basis statements for the general fund:

**HARDIN NORTHERN LOCAL SCHOOL DISTRICT  
HARDIN COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

**NOTE 3 -- BUDGETARY BASIS OF ACCOUNTING (Continued)**

Net Change in Fund Balance:		General
Budget Basis	\$	(82,282)
Adjustments:		
Revenue:		
Accrued FY 2005, Received In Cash FY 2006		(511,173)
Accrued FY 2006, Not yet Received In Cash		294,999
Expenditure accruals		
Accrued FY 2006, Not yet Paid In Cash		(346,926)
Accrued FY 2005, Paid In Cash FY 2006		382,571
Encumbrances		9,050
Other Financial Sources/Uses:		
Advances (net)		4,700
GAAP Basis	\$	(249,061)

**NOTE 4 -- DEPOSITS AND INVESTMENTS**

Statutes require the classification of monies held by the School District into three categories:

Active Deposits are those monies required to be kept in a "cash" or "near-cash" status for immediate use by the School District. Such monies must by law be maintained either as cash in the School District treasury, in depository accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) account, or in money market deposit accounts.

Inactive Deposits are those monies not required for use within the current two-year period of designation of depositories. Ohio law permits inactive monies to be deposited or invested as certificates of deposit maturing not later than the end of the current period of designation of depositories, or as savings or deposit accounts, including, but not limited to passbook accounts.

Interim Deposits are those monies, which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories.

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 money deposited with the institution.

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

1. United States Treasury bills, bonds, notes or any other obligation or security issued by the United State Treasury or any other obligation guaranteed as to principle and interest by the United States;

**HARDIN NORTHERN LOCAL SCHOOL DISTRICT  
HARDIN COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

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

2. Bonds, notes, debentures, or other obligations of 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 the 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 repurchased agreement must exceed the principal value of the agreements by at least two percent and be marked to market 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 (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions mentioned in section 135.03 of the Revised Code;
6. The State Treasurer's Investment pool;

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 Hardin Northern Local 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 year end, the District had \$1,904 in undeposited cash on hand which is included as part of "Equity in Pooled Cash and Cash Equivalents."

**Deposits**

At fiscal year end June 30, 2006, the bank balance of the School District's deposits was \$186,175 and the bank balance was \$186,175. Based on the criteria described in GASB Statement No. 40, "Deposit and Investment Risk Disclosure," as of June 30, 2006, \$86,175 of the bank balance was exposed to custodial risk as discussed below, while \$100,000 was covered by the Federal Depository Insurance Corporation.

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

**HARDIN NORTHERN LOCAL SCHOOL DISTRICT  
HARDIN COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

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

The School District has no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the School District or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least one hundred five percent of the deposits being secure.

**Investments**

As of June 30, 2006, the School District's investments total \$928,905, which is maintained in a STAR Ohio account. At June 30, 2006, STAR Ohio received the Standard & Poor's highest credit rating of AAAm.

As of June 30, 2006, the District had the following investment.

	<b>Carrying and Fair Value</b>	<b>Maturity</b>
STAR Ohio	928,905	Average
Total Investments	\$928,905	

**Interest Rate Risk** - The District has no investment policy that addresses interest rate risk. State statute requires that an investment mature within five years from the date of purchase, unless matched to a specific obligation or debt of the District, and that an investment must be purchased with the expectation that it will be held to maturity. State statute limits investments in commercial paper to a maximum maturity of 180 days from the date of purchase. Repurchase agreements are limited to 30 days and the market value of the securities must exceed the principal value of the agreement by at least 2% and be marked to market daily.

**Credit Risk** - STAR Ohio carries a rating of AAA by Standard and Poor's. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service and that the money market mutual fund be rated in the highest category at the time of purchase by at least one nationally recognized standard rating service. Investments in commercial paper are limited to notes rated at the time of purchase to the highest classification established by two nationally recognized standard rating services. The District has no investment policy that would further limit its investment choices.

**Custodial Credit Risk** - For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District has no investment policy dealing with investment custodial risk beyond the requirement in state statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the Treasurer or qualified trustee.

**Concentration of Credit Risk** - The District places no limit on the amount it may invest in any one issuer, however state statute limits investments in commercial paper and bankers' acceptances to 25% of the interim monies available for investment at any one time.

**HARDIN NORTHERN LOCAL SCHOOL DISTRICT  
HARDIN COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

**NOTE 5 -- PROPERTY TAXES**

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

Property taxes include amounts levied against all real, public utility, and tangible personal (used in business) property located in the School District. Real and public utility property tax revenues received in calendar year 2006 represent the collection of calendar year 2005 taxes. Real property taxes for 2006 were levied after April 1, 2006, on the assessed values as of January 1, 2006, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility real and tangible personal property taxes for 2006 were levied after April 1, 2006, on the assessed values as of December 31, 2005, the lien date. Public utility real property is assessed at 35 percent of true value; tangible personal property is currently assessed at varying percentages of true value. Public utility property taxes are payable on the same dates as real property taxes described previously.

Tangible personal property tax revenues received in calendar year 2006 (other than public utility property) represent the collection of calendar year 2006 taxes. Tangible personal property taxes for 2006 were levied after April 1, 2006, on the value as of December 31, 2005. Tangible personal property is currently assessed at 25 percent of true value for capital assets and 24 percent of true value for inventory. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20.

The School District receives property taxes from Hardin and Hancock 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 Counties by June 30, 2006, are available to finance fiscal year 2006 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable represents delinquent taxes outstanding and real property, public utility property, and tangible personal property taxes, which were measurable as of June 30, 2006 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, amounts to be received during the available period are not subject to reasonable estimation at June 30, nor were they levied to finance fiscal year 2006 operations. For the governmental fund financial statements, the receivable is therefore offset by a credit to deferred revenue for that portion not intended to finance current year operations. The amount available as an advance was recognized as revenue. On a full accrual basis, collectible delinquent property taxes have been recorded as a receivable and revenue while on a modified accrual basis the revenue is deferred.

The amount available as an advance at June 30, 2006, was \$45,120 in the General Fund and \$3,645 in the Permanent Improvement Fund.

The assessed values upon which the fiscal year 2006 taxes were collected are detailed in the table on the following page.

**HARDIN NORTHERN LOCAL SCHOOL DISTRICT  
HARDIN COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

**NOTE 5 -- PROPERTY TAXES (Continued)**

	<u>2006 First Half Collections</u>		<u>2005 Second Half Collections</u>	
	Amount	Percent	Amount	Percent
Agricultural/Residential	\$ 38,382,880	91.21%	\$ 38,003,340	88.70%
Public Utility	2,670,600	6.35%	3,391,910	7.92%
Tangible Personal Property	1,029,661	2.44%	1,449,000	3.38%
<b>Total Assessed Value</b>	<b>\$ 42,083,141</b>	<b>100.00%</b>	<b>\$ 42,844,250</b>	<b>100.00%</b>
Tax Rate per \$1000 of Assessed Valuation	39.05%		37.35%	

**NOTE 6 – INCOME TAX**

The School District levies a voted tax of one percent for general operations on the income of residents and of estates. The tax was effective on January 1, 1991, and is a continuing tax. Employers of residents are required to withhold income tax on compensation and remit the tax to the State. Taxpayers are required to file an annual return. The State makes quarterly distributions to the School District after withholding amounts for administrative fees and estimated refunds. Income tax revenue is credited to the General Fund.

**NOTE 7 -- RECEIVABLES**

Receivables at June 30, 2006, consisted of taxes, interest, accounts (billings for user charged services), and intergovernmental receivables arising from grants, entitlement and shared revenues. All receivables are considered collectable in full. A summary of the principal items of receivables follows:

<u>Receivables</u>	<u>Amount</u>
<u>Governmental Activities:</u>	
School Income Taxes	\$ 317,280
Total Income Taxes Receivable	317,280
<u>Property Taxes:</u>	
General:	
Current	798,400
Delinquent	<u>33,164</u>
Total General Fund	831,564
Permanent Improvement:	
Current	64,500
Delinquent	<u>2,379</u>
Total Permanent Improvement	67,179
<u>Intergovernmental:</u>	
General	35,041
IDEA	12,312
Title I	17,494
Title VI	845

**HARDIN NORTHERN LOCAL SCHOOL DISTRICT  
HARDIN COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

**NOTE 7 – RECEIVABLES (Continued)**

<u>Receivables</u>	<u>Amount</u>
Drug Free Schools	214
ECSE	858
Title VI	11,814
Title IID	<u>7,486</u>
Total Intergovernmental Receivables	89,023
Accrued Interest Receivable	<u>3,318</u>
Total Accrued Interest Receivable	3,318
Interfund Receivable	<u>4,700</u>
Total Interfund Receivable	4,700
Total Governmental Activities	<u>1,313,064</u>
Business –Type Activities:	
Food Service	<u>2,959</u>
Fiduciary Activities:	
Accounts	<u>200</u>
Grand Total	<u><u>\$ 1,313,264</u></u>

**NOTE 8 -- CAPITAL ASSETS**

Capital asset activity for the fiscal year ended June 30, 2006, is detailed in the table on the following page.



**HARDIN NORTHERN LOCAL SCHOOL DISTRICT  
HARDIN COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

	<u>Balance 06/30/05</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance 06/30/06</u>
<b>Governmental Activities</b>				
Land	\$ 20,000	\$ -	\$ -	\$ 20,000
Land Improvements	162,632	6,682	-	169,314
Buildings and Improvements	2,183,422	13,352	-	2,196,774
Furniture and Equipment	1,243,315	36,444	-	1,279,759
Vehicles	451,764	-	-	451,764
Totals at Historical Cost	<u>\$ 4,061,133</u>	<u>\$ 56,478</u>	<u>\$ -</u>	<u>\$ 4,117,611</u>
	<u>Balance 06/30/05</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance 06/30/06</u>
Less Accumulated Depreciation:				
Land Improvements	\$ 70,436	\$ 11,288	\$ -	\$ 81,724
Buildings and Improvements	1,305,358	25,923	-	1,331,281
Furniture and Equipment	924,289	81,872	-	1,006,161
Vehicles	403,686	11,796	-	415,482
Total Accumulated Depreciation	<u>2,703,769</u>	<u>130,879</u>	<u>-</u>	<u>2,834,648</u>
Governmental Activities Capital Assets, Net	<u>\$ 1,357,364</u>	<u>\$ (74,401)</u>	<u>\$ -</u>	<u>\$ 1,282,963</u>
<b>Business-Type Activities</b>				
Furniture and Equipment	\$ 42,818	\$ -	\$ -	\$ 42,818
Total Accumulated Depreciation	<u>26,618</u>	<u>1,573</u>	<u>-</u>	<u>28,191</u>
Business-Type Activities: Capital Assets, Net	<u>\$ 16,200</u>	<u>\$ (1,573)</u>	<u>\$ -</u>	<u>\$ 14,627</u>

\* - Depreciation expense was charged to governmental functions as follows:

Instruction:		
Regular		\$ 17,632
Vocational		2,712
Support Service:		
Pupils		40
Administration		2,130
Fiscal		741
Operation and Maintenance of Plant		23,139
Transportation		179
Extracurricular		11,315
Facilities Acquisition and Construction Services		72,991
Total Depreciation Expense		<u>\$ 130,879</u>

**HARDIN NORTHERN LOCAL SCHOOL DISTRICT  
HARDIN COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

**NOTE 9 – RESTRICTED ASSETS**

The following amounts, which are reflected on the statement of net assets, are restricted for various purposes:

**Assets:**

Equity in Pooled Cash and Cash Equivalents:

General Fund:

Budget stabilization	\$ 17,316
Reserve for Textbooks	<u>236,684</u>

Total Governmental Activities Restricted Assets \$ 254,000

**NOTE 10 -- INTERFUND TRANSFERS**

Interfund transfers during fiscal year 2006 consisted of the following individual funds:

<u>Fund:</u>	<u>Transfers Out</u>	<u>Transfer In</u>
General	\$ 98,395	\$ 68,375
Permanent Improvement	26,963	-
Non-Major Funds:		
Bond Retirement	-	26,963
Food Service	5,500	33,000
Title I FY05	5,389	-
Title I FY06	-	5,389
Title V FY05	-	324
Title IIA FY05	324	-
Title IID FY05	114	-
Title IID FY06	-	114
Agency	-	2,520
<b>TOTALS</b>	<u>\$ 136,685</u>	<u>\$ 136,685</u>

**NOTE 11 -- RISK MANAGEMENT**

**A. Insurance Coverage**

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. For fiscal year 2006, the School District contracted with the Schools of Risk Sharing Authority for the insurance coverage detailed in the table on the following page.

**HARDIN NORTHERN LOCAL SCHOOL DISTRICT  
HARDIN COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

**NOTE 11 -- RISK MANAGEMENT (Continued)**

**Insurance Coverage (Continued)**

Buildings and Contents - replacement cost (\$1,000 deductible)	\$9,381,124
General Liability	
Per Occurrence	3,000,000
Aggregate	5,000,000
Vehicle Liability	3,000,000
Uninsured Motorist	50,000
General Annual Aggregate	5,000,000
Educators' Legal Liability	3,000,000
Public Employee Dishonesty	50,000

Settled claims have not exceeded this commercial coverage in any of the past three years, and there has been no significant reduction in insurance coverage from the prior fiscal year.

**B. Workers' Compensation**

For fiscal year 2006, the School District participated in the Ohio Association of School Business Officials Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool. 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 participants is calculated as one experience and a common premium rate is applied to all participants 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 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 participants that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control, and actuarial services to the GRP.

**C. Employee Health Benefits**

The School District participates in the Hardin County Employees' Health and Welfare Benefit Plan and Trust (the Trust), a public entity shared risk pool consisting of six school districts, the Hardin County Educational Service Center, and the Ada Public Library. The School District pays monthly premiums to the Trust for medical, dental, vision, and life insurance benefits. The Trust is responsible for the management and operations of the program. Upon withdrawal from the Trust, a participant is responsible for the payment of all Trust liabilities to its employees, dependents, and designated beneficiaries accruing as a result of withdrawal.

**HARDIN NORTHERN LOCAL SCHOOL DISTRICT  
HARDIN COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

**NOTE 12 -- 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 administered by the School Employees Retirement Board. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476.

For the fiscal year ended June 30, 2006, plan members were required to contribute 10 percent of their annual covered salary and the School District was required to contribute an actuarially determined rate. The employer rate for fiscal year 2006 was 14 percent of annual covered payroll; 10.57 percent was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS Retirement Board. The School District's required contribution for pension obligations to SERS for the fiscal years ending June 30, 2006, 2005, and 2004 were \$51,708, \$56,151 and \$40,624 respectively; 43.9 percent has been contributed for fiscal year 2006, and 100 percent for fiscal years 2005 and 2004. \$28,972 representing the unpaid contribution for the fiscal year 2006 is recorded as a liability within respective funds

**B. State Teachers Retirement System**

The School District contributes to the State Teachers Retirement System of Ohio (STRS Ohio), a cost sharing multiple employer public employee retirement system. STRS Ohio is a statewide retirement plan for licensed teachers and other agency controlled, managed and supported, in whole or in part, by the state or any political subdivision thereof.

**Plan Options** – New members have a choice of three retirement plan options. In addition to the Defined Benefit (DB) Plan, new members are offered a Defined Contribution (DC) Plan and a Combined Plan. The DC Plan allows members to allocate all their member contributions and employer contributions equal to 10.5% of earned compensation. The Combined Plan offers features of the DC Plan and the DB. In the Combined Plan, the member contributions are allocated by the member, and employer contributions are used to fund a defined benefit payment at a reduced level from regular DB Plan. Contributions into the DC Plan and the Combined Plan are credited to member accounts as employers submit their payroll information to STRS Ohio, generally on a biweekly basis. DC and Combined Plan members will transfer the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan.

**DB Plan Benefits** – Plan benefits are established under Chapter 3307 of the Revised Code. Any member may retire who has (i) five years of service credit and attained age 60; (ii) 25 years of service credit and attained age 55; or (iii) 30 years of service credit regardless of age. The annual retirement allowance, payable for life, is the greater of the "formula benefit" or the "money-purchase benefit" calculation. Under the "formula benefit," the retirement allowance is based on years of credited service and final average salary, which is the average of the member's three highest salary years. The annual allowance is calculated by using a base percentage of 2.2% multiplied by the total number of years of service credit (including Ohio-valued purchased credit) times the final average salary.

**HARDIN NORTHERN LOCAL SCHOOL DISTRICT  
HARDIN COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

**NOTE 12 -- DEFINED BENEFIT PENSION PLANS (Continued)**

The 31<sup>st</sup> year of earned Ohio service credit is calculated at 2.5%. An additional one-tenth of a percent is added to the calculation for every year of earned Ohio service over 31 years (2.6% for 32 years, 2.7% for 33 years and so on) until 100% of final average salary is reached. For members with 35 or more years of Ohio contributing service, the first 30 years will be calculated at 2.5% instead of 2.2%. Under the "money-purchase benefit" calculation, a member's lifetime contributions plus interest at specified rates are matched by an equal amount from other STRS Ohio funds. This total is then divided by an actuarially determined annuity factor to determine the maximum annual retirement allowance.

**DC Plan Benefits** – Benefits are established under Sections 3307.80 to 3307.89 of the Revised Code. For members who select the DC Plan, all member contributions and employer contributions at a rate of 10.5% are placed in an investment account. The member determines how to allocate the member and employer money among various investment choices. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump-sum withdrawal. Employer contributions into members' accounts are vested after

the first anniversary of the first day of paid service. 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.

**Combined Plan Benefits** – The member allocates Member contributions, and employer contributions are used to fund a defined benefit payment. A member's defined benefit is determined by multiplying 1% of the member's final average salary by the member's years of service credit. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60. The defined contribution portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50.

Eligible faculty of Ohio' public colleges and universities may choose to enroll in either STRS Ohio or an alternative retirement plan (ARP) offer by their employer. Employees have 120 days from their employment date to select a retirement plan.

A retiree of STRS Ohio or another Ohio public retirement system is eligible for reemployment as a teacher following the elapse of two months from the date of retirement. Contributions are made by the reemployed member and employer during the reemployment. Upon termination of reemployment or age 65, whichever comes later, the retiree is eligible for a money-purchase benefit or a lump-sum payment in addition to the original retirement allowance.

Benefits are increased annually by 3% of the original base amount for Defined Benefit Plan participants.

The Defined Benefit and Combined Plans offer access to health care coverage to eligible retirees who participated in the plans and their eligible dependent. Coverage under the current program includes hospitalization, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums. By Ohio Law health care benefits are not guaranteed.

A Defined Benefit or Combined Plan member with five or more years' credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. A death benefit of \$1,000 is payable to the beneficiary of each deceased retired member who participated in the Defined Benefit Plan. Death benefit coverage up to \$2,000 can be purchased by participants in the DB, DC, or Combined Plans. Various other benefits are available to members' beneficiaries.

**HARDIN NORTHERN LOCAL SCHOOL DISTRICT  
HARDIN COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

**NOTE 12 -- DEFINED BENEFIT PENSION PLANS (Continued)**

Chapter 3307 of the Revised Code provides statutory authority for member and employer contributions. Contributions rate are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers.

Contribution requirements and the contributions actually made for the fiscal year ended June 30, 2006, were 10% of covered payroll for members and 14% for employers. The School District's required contribution for pension obligations for the fiscal years ended June 30, 2006, 2005, and 2003 were \$221,598, \$259,895, and \$241,466, respectively; 84.0 percent has been contributed for fiscal year 2006 and 100 percent has been contributed for fiscal years 2005 and 2004. \$35,549 representing the unpaid contribution for the fiscal year 2006 is recorded as a liability within respective funds.

STRS Ohio issues a stand-alone financial report. Copies of STRS Ohio 2006 Comprehensive Annual Financial Report will be available after January 1, 2006. Additional information or copies of STRS Ohio's 2006 Comprehensive Annual Financial Report can be requested by writing to STRS Ohio, 275 E. Board St., Columbus, Ohio 43215-3771, by calling (614) 227-4090, or by visiting the STRS OhioWeb site at [www.strsoh.org](http://www.strsoh.org).

**NOTE 13 - POSTEMPLOYMENT BENEFITS**

**A. School Employees Retirement System**

The Ohio Revised Code gives SERS the discretionary authority to provide postretirement health care to retirees and their dependents. Coverage is made available to service retirees with ten or more years of qualifying service credit, disability and survivor benefit recipients. Effective January 1, 2005, all retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility and retirement status. A safety net is in place for retirees whose household income falls below federal poverty levels. Premiums are reduced by 50% for those who apply.

After the allocation for basic benefits, the remainder of the employer's 14% contribution is allocated to providing health care benefits. For this fiscal year ending June 30, 2006, employer contributions to fund health care benefits were 3.43 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2006, the minimum pay was established at \$25,400. For the School District, the amount to fund health care benefits, including surcharge, equaled \$26,818 for the fiscal year ended June 30, 2006. 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.

Health care benefits are financed on a pay-as-you-go basis. The target level for the health care reserve is 150% of annual health care expenses, before premium deduction. Net health care costs for the fiscal year ending June 30, 2005 (the latest information available), were \$178,221,113. The target level for the health care fund is 150% of the projected claims less premium contributions for the next fiscal year. As of June 30, 2005, the value of the health care fund was \$267.5 million, which is about 168% of next year's projected net health care costs of \$158,776,151. On the basis of actuarial projections, the allocated contributions will be insufficient, in the long term, to provide for a health care reserve equal to at least 150% of estimated annual net claim costs. The number of recipients currently receiving health care benefits is approximately 58,123.

**HARDIN NORTHERN LOCAL SCHOOL DISTRICT  
HARDIN COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

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

**B. State Teachers Retirement System**

STRS Ohio provides access to health care coverage to retirees who participated in the Defined Benefit or Combined Plans and their dependents. Coverage under the current plan includes hospitalization, physicians' fees prescription drugs and partial reimbursement of monthly Medicare Part B premiums. Pursuant to the Revised Code (R.C.) the State Teachers Retirement Board (the Board) has discretionary authority over how much, if any, of the associated health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of the health care cost in the form of a monthly premium.

The R.C. grants authority to STRS Ohio to provide health care coverage to eligible benefit recipients, spouses and dependents. By Ohio Law, health care benefits are not guaranteed and the cost of the coverage paid from STRS Ohio funds shall be included in the employer contribution rate, currently 14% of covered payroll.

The Retirement Board allocates employer contributions to the Health Care Stabilization Fund from which health care benefits are paid. For fiscal year June 30, 2005, and June 30, 2004, the Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. The balance in the Health Care Stabilization Fund was \$3.3 billion as of June 30, 2005. For the School District, this amount equaled \$18,361 for the fiscal year ended June 30, 2006.

For the fiscal year ended June 30, 2005 (the latest information available) net health care costs paid by STRS Ohio were \$254,780,000. There were 115,395 eligible benefit recipients.

**NOTE 14 -- OTHER EMPLOYEE BENEFITS**

**A. Compensated Absences**

The criteria for determining vacation and sick leave benefits is derived from negotiated agreements and State laws. Classified employees earn five to twenty-five days of vacation per year, depending upon length of service. Accumulated unused vacation time is paid to classified employees upon termination of employment. Teachers and administrators, who are not on a twelve-month contract, do not earn vacation time. Teachers, administrators, and classified employees earn sick leave at a rate of one and one-fourth days per month. Sick leave may be accumulated up to two hundred days for classified employees and two hundred ten days for certified employees. The maximum amount of days to be paid at retirement is based upon the total years of service at the time of retirement.

**B. Health Care Benefits**

The School District provides medical, dental, vision, and life insurance to most employees through the Hardin County School Employees' Health and Welfare Benefit Plan and Trust. Depending upon the plan chosen, the employees share the cost of the monthly premium with the Board. The premium varies with employee depending on the terms of the union contract.

**C. Social Security System**

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System/State Teachers Retirement System. As of June 30, 2006, none of the Board of Education members have elected Social Security. The Board's liability is 6.2 percent of wages paid.

**HARDIN NORTHERN LOCAL SCHOOL DISTRICT  
HARDIN COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

**NOTE 15 -- LONG-TERM LIABILITIES**

The changes in the School District's long-term obligations during the fiscal year consist of the following:

	Principal Outstanding 06/30/05	Additions	Reductions	Principal Outstanding 06/30/06	Due Within One Year
<b>Governmental Activities:</b>					
Permanent Improvement Tax Anticipation Note 5.15%	\$ 50,000	\$ -	\$ 25,000	\$ 25,000	\$ 25,000
Compensated Absences	260,769	229,250	260,769	229,250	10,449
Intergovernmental Payable	42,106	-	42,106	-	-
Capital Lease Payable	31,262	-	15,273	15,989	15,989
<b>Total Governmental Activities</b>	<b>384,137</b>	<b>229,250</b>	<b>343,148</b>	<b>270,239</b>	<b>51,438</b>
<b>Business-Type Activities:</b>					
Compensated Absences Payable	5,292	4,057	5,292	4,057	4,057
<b>Total Business-Type Activities</b>	<b>5,292</b>	<b>4,057</b>	<b>5,292</b>	<b>4,057</b>	<b>4,057</b>
<b>Total Long Term Liabilities</b>	<b>\$ 389,429</b>	<b>\$ 233,307</b>	<b>\$ 348,440</b>	<b>\$ 274,296</b>	<b>\$ 55,495</b>

Compensated absences will be paid from the fund from which the employees' salaries are paid. Capital Leases will be paid from the General Fund. Tax anticipation notes are reported as a liability on the fund financial statements in the fund that received the proceeds.

The School District's overall debt margin was \$3,762,483 with an unvoted debt margin of \$17,083 at June 30, 2006.

During fiscal year 1997, the School District issued tax anticipation notes, in the amount of \$250,000, for improving the School District's buildings. The notes were issued for a ten-year period at an interest rate of 5.15 percent. The notes are being paid with tax levy monies that are recorded in the Permanent Improvement Fund and transferred to the Debt Service Fund for payment. The annual requirements to amortize all debt outstanding as of June 30, 2006, including interest is as follows:

<u>Fiscal Year Ending June 30,</u>	<b>Premanent Improvement Tax Anticipation Note</b>	
	<u>Principal</u>	<u>Interest</u>
2007	\$ 25,000	\$ 644
Total	\$ 25,000	\$ 644



**HARDIN NORTHERN LOCAL SCHOOL DISTRICT  
HARDIN COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

**NOTE 16 -- CAPITALIZED LEASES - LESSEE DISCLOSURE**

The School District has entered into capitalized leases for the acquisition of school buses. 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 at the conclusion of the lease term. Capital lease payments have been reclassified and are reflected as debt service expenditures in the Statement of Revenues, Expenditures and Changes in Fund Balances for the Governmental Funds. Capital assets acquired by lease have been capitalized in the amount of \$104,034. A liability was recorded in the Government Wide Financial Statements for \$31,262. During fiscal year 2006, the capital lease was refinanced and the transactions recorded in the General Fund including the Debt Service Principal payments that totaled \$16,738 with refinanced interest and fiscal charges of \$1,465.

The following is a schedule of the future minimum lease payments required under the capital leases and the present value of the future minimum lease payments as of June 30, 2006:

<u>Fiscal Year Ending June 30,</u>	<b>Capital Lease Liability</b>	
	<b>Note</b>	
	<u>Principal</u>	<u>Interest</u>
2007	\$ 15,989	\$ 749
Total	<u>\$ 15,989</u>	<u>\$ 749</u>

**NOTE 17 -- SET ASIDES**

The School District is required by State statute to annually set aside, in the General Fund, an amount based on a statutory formula for the purchase of textbooks and other instructional materials, and an equal amount for the acquisition and construction of capital improvements. Amount not spent by the end of the fiscal year or offset by similarly restricted resources received during the year must be held in cash at year-end. These amounts must be carried forward and used for the same purposes in future years. In addition, the School District was also required to set aside money for budget stabilization. For fiscal year 2006, only the portion of the budget stabilization from certain Bureau of Workers' Compensation refunds whose use is restricted by S.B. 345 continues to be set-aside at fiscal year end.

The following cash basis information identifies the changes in the fund balance reserves for textbooks, capital improvements, and Bureau of Worker's Compensation refunds during fiscal year 2006:

	<b>Textbook Reserve</b>	<b>Capital Maintenance Reserve</b>	<b>Bureau of Workers Compensation Refunds</b>	<b>Total</b>
Balance, June 30, 2005	\$ 238,683	\$ -	\$ 17,316	\$ 255,999
Required Set-Aside	70,449	70,449	-	140,898
Qualifying Expenditures	<u>(72,448)</u>	<u>(70,449)</u>	<u>-</u>	<u>(142,897)</u>
Balance, June 30, 2006	<u>\$ 236,684</u>	<u>\$ -</u>	<u>\$ 17,316</u>	<u>\$ 254,000</u>
Amount Carried Forward to Fiscal Year 2007				\$ 254,000

**HARDIN NORTHERN LOCAL SCHOOL DISTRICT  
HARDIN COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

**NOTE 18 -- JOINTLY GOVERNED ORGANIZATIONS**

**A. Western Ohio Computer Organization**

The School District is a participant in the Western Ohio Computer Organization (WOCO), which is a computer consortium. WOCO is an association of public school districts within the boundaries of Auglaize, Champaign, Hardin, Logan, and Shelby 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. This organization is governed by a board of directors consisting of 14 members: the superintendent of the fiscal agent Shelby County Education Service Center, two superintendents from each county that is represented, one treasurer representative from the School Districts, student services representative from the school districts, and a non-voting independent district representative. The degree of control exercised by any participating school district is limited to its representation on the board. Financial information can be obtained from the Director, 129 East Court Street, Sidney, Ohio 45365.

**B. Apollo Career Center**

The Apollo Career Center is a distinct political subdivision of the State of Ohio which provides vocational education to students. The Career Center is operated under the direction of a Board consisting of one representative from each of the participating school districts' elected boards. The degree of control exercised by the School District is limited to its representation on the Board. The Board is its own budgeting and taxing authority. Financial information can be obtained from the Apollo Joint Vocational School, 3325 Shawnee Road, Lima, Ohio 45806.

**C. West Central Regional Professional Development Center**

The West Central Regional Professional Development Center (the Center) is a jointly governed organization among the school districts in Allen, Auglaize, Hancock, Hardin, Mercer, Paulding, Putnam, and Van Wert Counties. The organization was formed to establish an articulated regional structure for professional development in which school districts, the business community, higher education, and other groups cooperatively plan and implement effective professional development activities that are tied directly to school improvement, and in particular, to improvements in instructional programs.

The Center is governed by a fifty-two member board made up of representatives from the participating school districts, the business community, and two institutions of higher learning. The degree of control exercised by any participating school district is limited to its representation on the Board. Financial information can be obtained from Hancock County Educational Service Center, 7746 County Road 140, Findlay, Ohio 45840.

**D. Hardin County Schools Consortium Local Professional Development Committee**

The Hardin County Schools Consortium Local Professional Development Committee (the Consortium) is an association of five school districts within Hardin County. The Consortium was formed to plan, promote, and facilitate effective and efficient professional educator license renewal standards and staff development activities. The governing board of the Consortium consists of fifteen members, eight of which are teachers and seven of which are administrators. Financial information can be obtained from the Hardin County Educational Service Center, who serves as fiscal agent, at 1211 West Lima Street, Kenton, Ohio 43326.

**HARDIN NORTHERN LOCAL SCHOOL DISTRICT  
HARDIN COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

**NOTE 18 -- JOINTLY GOVERNED ORGANIZATIONS (Continued)**

**E. Northwestern Ohio Educational Research Council, Inc.**

The Northwestern Ohio Educational Research Council, Inc. (NOERC) is a jointly governed organization formed to bring educational entities into a better understanding of their common educational problems, facilitate and conduct practical educational research, coordinate educational research among members, provide a means for evaluating and disseminating the results of research, serve as a repository for research and legislative materials, and provide opportunities for training. The NOERC serves a twenty-five county area in Northwest Ohio. The Board of Directors consists of superintendents from two educational service centers, two exempted village school districts, five local school districts, and five city school districts, as well as representatives from two private or parochial schools and three institutions of higher education. Each active member is entitled to one vote on all issues addressed by the Board of Directors. Financial information can be obtained from the Northwestern Ohio Educational Research Council, Inc., Box 456, Ashland, Ohio 44805.

**F. West Central Ohio Special Education Regional Resource Center**

The West Central Ohio Special Education Regional Resource Center (SERRC) is a special education service center which selects its own board, adopts its own budget and receives direct Federal and State grants for its operation. The jointly-governed organization was formed for the purpose of initiating, expanding and improving special education programs and services for children with disabilities and their parents. The SERRC is governed by a board of fifty-two members made up of the fifty superintendents of the participating districts, one non-public school, and Wright State University whose terms rotate every year. The degree of control exercised by any participating school district is limited to its representation on the Board. Financial information can be obtained by contacting the Treasurer, at the Hardin County Educational Service Center, 1211 W. Lima Street, Suite A, Kenton, Ohio 43326-2385.

**NOTE 19 -- INSURANCE POOLS**

**A. Ohio School Boards Association Workers' Compensation Group Rating Plan**

The School District participates in a group-rating plan for workers' compensation as established under Section 4123.29 of the Ohio Revised Code. The Ohio School Boards Association Workers' Compensation Group Rating Plan (GRP) was established through the Ohio School Boards Association (OSBA) as 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 GRP. Each year, the participants pay an enrollment fee to the GRP to cover the costs of administering the program.

**B. Hardin County School Employees' Health and Welfare Benefit Plan and Trust**

The Hardin County School Employees' Health and Welfare Benefit Plan and Trust (the Trust) is a public entity shared risk pool consisting of six school districts, the Hardin County Educational Service Center, and the Ada Public Library. The Trust is organized as a Voluntary Employee Benefit Association under Section 501(c)(9) of the Internal Revenue Code and provides medical, dental, vision, and life insurance benefits to the employees of the participants.

**HARDIN NORTHERN LOCAL SCHOOL DISTRICT  
HARDIN COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

**NOTE 19 -- INSURANCE POOLS (Continued)**

Each participant's superintendent is appointed to an Administrative Committee which advises the Trustee, Ohio Bank, concerning aspects of the administration of the Trust.

Each participant decides which plans offered by the Administrative Committee will be extended to its employees. Participation in the Trust is by written application subject to acceptance by the Administrative Committee and payment of the monthly premiums. Financial information can be obtained from Rick Combs, who serves as Director, 9525 Township Road 50, Dola, Ohio 45835.

**NOTE 20 -- RELATED ORGANIZATION**

The Hardin Northern Public Library is a distinct subdivision of the State of Ohio created under Chapter 3375 of the Ohio Revised Code. The Library is governed by a Board of Trustees appointed by the Hardin Northern Board of Education. The Board of Trustees possesses its own contracting and budgeting authority, hires and fires personnel, and does not depend on the School District for operational subsidies. Although the School District serves as the taxing authority, its role is limited to a ministerial function. The determination to request approval of a tax, the rate, and the purpose are discretionary decisions made solely by the Board of Trustees. Financial information can be obtained from the Hardin Northern Public Library, Clerk/Treasurer, P.O. Box 114, 153 North Main Street, Dunkirk, Ohio 45836.

**NOTE 21 -- STATE SCHOOL FUNDING DECISION**

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

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

**NOTE 22 -- CONTINGENT LIABILITIES**

**A. Grants**

The School District receives 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 effect on the overall financial position of the School District at June 30, 2006.

**B. Litigation**

The School District is involved in no material litigation as either plaintiff or defendant.

***Perry & Associates***  
Certified Public Accountants, A.C.

PARKERSBURG  
1035 Murdoch Avenue  
Parkersburg, WV 26101  
(304) 422-2203

MARIETTA  
428 Second Street  
Marietta, OH 45750  
(740) 373-0056

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

March 15, 2007

Hardin Northern Local School District  
Hardin County  
11589 State Route 81  
Dola, Ohio 44835-9725

To the Board of Education:

We have audited the financial statements of the governmental activities, business-type activities, each major fund and the aggregate remaining fund information of Hardin Northern Local School District, Hardin County, Ohio (the District) as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements as listed in the table of contents, and have issued our report thereon dated March 15, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the District's internal control over financial reporting to determine our auditing procedures in order to express our opinions on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable 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 caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses

**Compliance and Other Matters**

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

Hardin Northern Local School District  
Hardin County

Independent Accountants' Report on Internal Control over Financial Reporting  
and on Compliance and Other Matters Required by *Governmental Auditing Standards*  
Page 2

We intend this report solely for the information and use of the audit committee, management, and Board of Education. It is not intended for anyone other than these specified parties.

Respectfully Submitted,

**Perry and Associates**  
Certified Public Accountants, A.C.



Mary Taylor, CPA  
Auditor of State

HARDIN NORTHERN LOCAL SCHOOL DISTRICT  
HARDIN 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  
MAY 22, 2007