

Dave Yost • Auditor of State

**NORTHMOR LOCAL SCHOOL DISTRICT
MORROW COUNTY**

TABLE OF CONTENTS

TITLE	PAGE
Independent Accountants' Report.....	1
General Purpose External Financial Statements:	
Management's Discussion and Analysis.....	3
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Assets	15
Statement of Activities.....	16
Fund Financial Statements:	
Balance Sheet – Governmental Funds.....	17
Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities.....	18
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds.....	19
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities.....	20
Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual (Non-GAAP Budgetary Basis) – General Fund.....	21
Statement of Fiduciary Net Assets – Fiduciary Funds.....	22
Statement of Changes in Fiduciary Net Assets – Fiduciary Fund	23
Notes to the Basic Financial Statements	25
Federal Awards Receipts and Expenditures Schedule.....	55
Notes to the Federal Awards Receipts and Expenditures Schedule	56
Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i>	57
Independent Accountants' Report on Compliance with Requirements Applicable to Each Major Federal Program and on Internal Control Over Compliance Required by OMB Circular A133.....	59
Schedule of Findings.....	61
Schedule of Prior Audit Findings and Questioned Costs.....	63
Independent Accountants' Report on Applying Agreed-Upon Procedure	65

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Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Northmor Local School District
Morrow County
5247 County Road 29
Galion, Ohio 44833

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Northmor Local School District, Morrow County, Ohio, (the District), as of and for the year ended June 30, 2011, 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, each major fund, and the aggregate remaining fund information of Northmor Local School District, Morrow County, Ohio, as of June 30, 2011, and the respective changes in financial position 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.

As described in Note 3, during the year ended June 30, 2011, the District adopted the provisions of Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 30, 2012, 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.

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis*, as listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any other assurance.

We conducted our audit to opine on the financial statements that collectively comprise the District's basic financial statements taken as a whole. The federal awards receipts and expenditures schedule provides additional information required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements. The federal awards receipts and expenditures schedule is management's responsibility, and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. This schedule was subject to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling this information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, in accordance with auditing standards generally accepted in the United States of America. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Dave Yost
Auditor of State

March 30, 2012

**NORTHMOR LOCAL SCHOOL DISTRICT
MORROW COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
UNAUDITED**

The management's discussion and analysis of Northmor Local School District's (the "District") financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2011. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the District's financial performance.

Financial Highlights

Key financial highlights for fiscal year 2011 are as follows:

- In total, net assets of governmental activities increased \$517,642 which represents a 2.32% increase from 2010.
- General revenues accounted for \$10,365,456 in revenue or 75.55% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$3,354,936 or 24.45% of total revenues of \$13,720,392.
- The District had \$13,202,750 in expenses related to governmental activities; \$3,354,936 of these expenses was offset by program specific charges for services and sales, grants or contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$10,365,456 were adequate to provide for these programs.
- The District's major governmental funds are the general fund, building fund, and classroom facilities fund. The general fund had \$10,335,836 in revenues and \$10,388,673 in expenditures. During fiscal year 2011, the general fund's fund balance decreased \$52,837 from a restated fund balance of \$58,147 to fund balance of \$5,310.
- The building fund had \$4,960 in revenues and \$561,484 in expenditures. During fiscal year 2011, the building fund's fund balance decreased \$556,524 from \$2,218,857 to \$1,662,333.
- The classroom facilities fund had \$819,923 in revenues and \$14,473,099 in expenditures. During fiscal year 2011, the classrooms facilities fund's balance decreased \$13,653,176 from \$19,343,676 to \$5,690,500.

Using these Basic Financial Statements

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 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 District, presenting both an aggregate view of the 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 District's most significant funds with all other nonmajor funds presented in total in one column. In the case of the District, the general fund, building fund and classroom facilities fund are the most significant funds and are considered major funds.

**NORTHMOR LOCAL SCHOOL DISTRICT
MORROW COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
UNAUDITED
(Continued)**

Reporting the 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 District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2011?" The statement of net assets and the statement of activities answer this question. These statements include *all assets, liabilities, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

In the statement of net assets and the statement of activities, the governmental activities include the District's programs and services, including instruction, support services, operation and maintenance of plant, pupil transportation, extracurricular activities, and food service operations.

The District's statement of net assets and statement of activities can be found on pages 15-16 of this report.

Reporting the District's Most Significant Funds

Fund Financial Statements

The analysis of the District's major governmental funds begins on page 9. Fund financial reports provide detailed information about the District's major funds. The District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the District's most significant funds. The District's major governmental funds are the general fund, building fund and classroom facilities fund.

Governmental Funds

Most of the 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* than can readily be converted to cash. The governmental fund financial statements provide a detailed *short-term* view of the 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 basic financial statements. The basic governmental fund financial statements can be found on pages 17-21 of this report.

**NORTHMOR LOCAL SCHOOL DISTRICT
MORROW COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
UNAUDITED
(Continued)**

Reporting the District's Fiduciary Responsibilities

The District is the trustee, or fiduciary, for its scholarship programs. This activity is presented as a private-purpose trust fund. The District also acts in a trustee capacity as an agent for individuals or other entities. These activities are reported in agency funds.

All of the District's fiduciary activities are reported in separate statements of fiduciary net assets and changes in fiduciary net assets on pages 22 and 23. These activities are excluded from the District's other financial statements because the assets cannot be utilized by the District to finance its operations.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 25-55 of this report.

The District as a Whole

Recall that the statement of net assets provides the perspective of the District as a whole.

The table below provides a summary of the District's net assets at June 30, 2011 and June 30, 2010.

	Governmental Activities <u>2011</u>	Governmental Activities <u>2010</u>
<u>Assets</u>		
Current and other assets	\$ 15,398,192	\$ 31,203,726
Capital assets, net	<u>28,943,446</u>	<u>14,014,647</u>
Total assets	<u>44,341,638</u>	<u>45,218,373</u>
<u>Liabilities</u>		
Current liabilities	6,028,771	7,224,863
Long-term liabilities	<u>15,530,370</u>	<u>15,728,655</u>
Total liabilities	<u>21,559,141</u>	<u>22,953,518</u>
<u>Net Assets</u>		
Invested in capital assets		
assets, net of related debt	22,103,400	13,726,875
Restricted	1,392,463	9,212,009
Unrestricted (deficit)	<u>(713,366)</u>	<u>(674,029)</u>
Total net assets	<u>\$ 22,782,497</u>	<u>\$ 22,264,855</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2011, the District's assets exceeded liabilities by \$22,782,497. At fiscal year-end, unrestricted net assets was a deficit of \$713,366.

**NORTHMOR LOCAL SCHOOL DISTRICT
MORROW COUNTY**

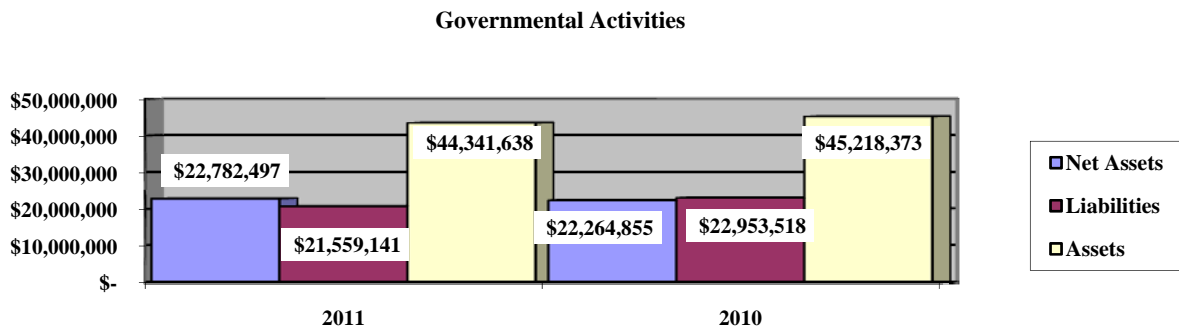
**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
UNAUDITED
(Continued)**

At fiscal year-end, capital assets represented 64.57% of total assets. Capital assets include land, land improvements, buildings and improvements, furniture and equipment, vehicles and construction in progress. Invested in capital assets, net of related debt at June 30, 2011, were \$22,103,400. These capital assets are used to provide services to the students and are not available for future spending.

Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the District's net assets, \$1,392,463, represents resources that are subject to external restriction on how they may be used. Of this total \$297,540 is restricted for capital projects, this is due to the District's participation in the Ohio School Facilities Commission (OSFC) building project.

The graph below illustrates the District's assets, liabilities and net assets at June 30, 2011 and 2010:



The table below shows the change in net assets for fiscal year 2011 and 2010.

	Change in Net Assets	
	Governmental Activities 2011	Governmental Activities 2010
Revenues		
Program revenues:		
Charges for services and sales	\$ 903,523	\$ 929,493
Operating grants and contributions	2,451,413	1,487,963
General revenues:		
Property taxes	3,985,946	3,848,273
Income taxes	1,357,555	1,310,278
Grants and entitlements	4,976,777	5,465,092
Investment earnings	21,552	38,762
Other	23,626	2,638
Total revenues	13,720,392	13,082,499

**NORTHMOR LOCAL SCHOOL DISTRICT
MORROW COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
UNAUDITED
(Continued)**

	Change in Net Assets	
	Governmental Activities <u>2011</u>	Governmental Activities <u>2010</u>
<u>Expenses</u>		
Program expenses:		
Instruction:		
Regular	\$ 4,878,874	\$ 4,802,157
Special	1,306,171	1,514,960
Vocational	256,746	238,474
Other	985,501	1,172,569
Support services:		
Pupil	363,227	347,284
Instructional staff	843,437	824,603
Board of education	32,248	29,187
Administration	1,057,528	1,009,395
Fiscal	458,449	522,216
Operations and maintenance	882,475	894,914
Pupil transportation	751,350	738,957
Central	6,475	5,941
Operations of non-instructional services:		
Other non-instructional services	2,500	2,282
Food service operations	386,731	367,407
Extracurricular activities	324,737	338,960
Interest and fiscal charges	<u>666,301</u>	<u>670,712</u>
Total expenses	<u>13,202,750</u>	<u>13,480,018</u>
Change in net assets	517,642	(397,519)
Net assets at beginning of year	<u>22,264,855</u>	<u>22,662,374</u>
Net assets at end of year	<u>\$ 22,782,497</u>	<u>\$ 22,264,855</u>

Governmental Activities

Net assets of the District's governmental activities increased \$517,642. Total governmental expenses of \$13,202,750 were offset by program revenues of \$3,354,936 and general revenues of \$10,365,456. General revenues include grants that are restricted for the OSFC building project. This project will increase the amount of net assets for the District but will be restricted for capital projects. Program revenues supported 25.41% of the total governmental expenses.

The primary sources of revenue for governmental activities are derived from property taxes, income taxes and unrestricted and restricted grants and entitlements. These revenue sources represent 75.22% of total governmental revenue.

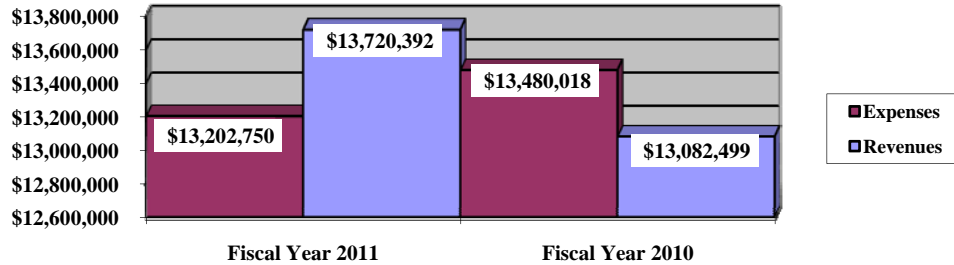
The largest expense of the District is for instructional programs. Instruction expenses totaled \$7,427,292 or 56.26% of total governmental expenses for fiscal year 2011.

The graph below presents the District's governmental activities revenue and expenses for fiscal year 2011 and 2010.

**NORTHMOR LOCAL SCHOOL DISTRICT
MORROW COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
UNAUDITED
(Continued)**

Governmental Activities - Revenues and Expenses



The statement of activities shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State grants and entitlements.

Governmental Activities

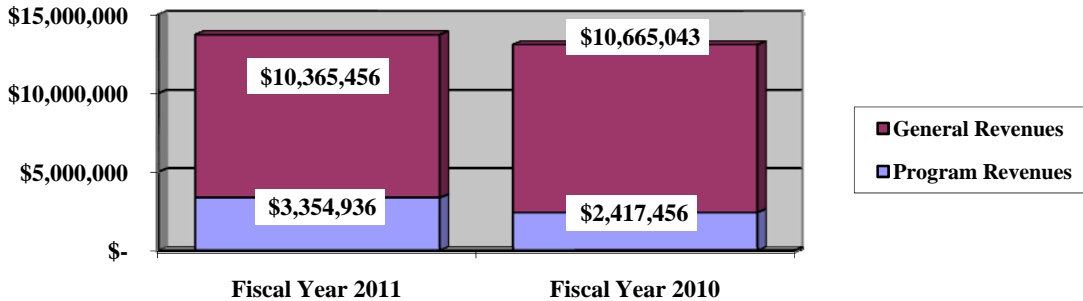
	Total Cost of Services 2011	Net Cost of Services 2011	Total Cost of Services 2010	Net Cost of Services 2010
Program expenses				
Instruction:				
Regular	\$ 4,878,874	\$ 3,960,938	\$ 4,802,157	\$ 3,929,404
Special	1,306,171	357,744	1,514,960	1,083,255
Vocational	256,746	187,659	238,474	179,150
Other	985,501	985,501	1,172,569	1,167,569
Support services:				
Pupil	363,227	268,002	347,284	248,968
Instructional staff	843,437	586,718	824,603	587,738
Board of education	32,248	32,248	29,187	29,187
Administration	1,057,528	671,087	1,009,395	956,543
Fiscal	458,449	458,449	522,216	455,153
Operations and maintenance	882,475	695,415	894,914	857,527
Pupil transportation	751,350	751,350	738,957	665,655
Central	6,475	1,475	5,941	941
Operations of non-instructional services:				
Other non-instructional services	2,500	(1,339)	2,282	456
Food service operations	386,731	(4,696)	367,407	(25,240)
Extracurricular activities	324,737	230,962	338,960	255,544
Interest and fiscal charges	666,301	666,301	670,712	670,712
Total expenses	\$ 13,202,750	\$ 9,847,814	\$ 13,480,018	\$ 11,062,562

**NORTHMOR LOCAL SCHOOL DISTRICT
MORROW COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
UNAUDITED
(Continued)**

The dependence upon tax and other general revenues for governmental activities is apparent, 73.94% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 74.59%. The District's taxpayers and unrestricted grants and entitlements, from the state are the primary support for District's students. The graph below presents the District's governmental activities revenue for fiscal year 2011 and 2010.

Governmental Activities - General and Program Revenues



The District's Funds

The District's governmental funds reported a combined fund balance of \$9,140,415, which is lower than last year's total of \$22,064,784. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2011 and 2010. The District restated fund balances at June 30, 2010 as described in Note 3.B.

	Fund Balance June 30, 2011	Restated Fund Balance June 30, 2010	Increase/ (decrease)	Percentage Change
General	\$ 5,310	\$ 58,147	\$ (52,837)	(90.87) %
Building	1,662,333	2,218,857	(556,524)	(25.08) %
Classroom facilities	5,690,500	19,343,676	(13,653,176)	(70.58) %
Other governmental	906,312	444,104	462,208	104.08 %
Total	\$ 8,264,455	\$ 22,064,784	\$ (13,800,329)	(62.54) %

General Fund

The District's general fund balance decreased \$52,837.

**NORTHMOR LOCAL SCHOOL DISTRICT
MORROW COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
UNAUDITED
(Continued)**

The table that follows assists in illustrating the financial activities and fund balance of the general fund.

	2011 Amount	Restated 2010 Amount	Increase/ (Decrease)	Percentage Change
<u>Revenues</u>				
Taxes	\$ 4,237,406	\$ 4,170,194	\$ 67,212	1.61 %
Tuition	598,269	555,869	42,400	7.63 %
Earnings on investments	1,684	6,655	(4,971)	(74.70) %
Intergovernmental	5,427,231	5,544,869	(117,638)	(2.12) %
Other revenues	<u>71,246</u>	<u>36,916</u>	<u>34,330</u>	92.99 %
Total	<u>\$ 10,335,836</u>	<u>\$ 10,314,503</u>	<u>\$ 21,333</u>	0.21 %
<u>Expenditures</u>				
Instruction	\$ 6,658,255	\$ 6,943,436	\$ (285,181)	(4.11) %
Support services	3,475,217	3,927,571	(452,354)	(11.52) %
Extracurricular activities	246,102	221,714	24,388	11.00 %
Facilities acquisition and construction	<u>9,099</u>	<u>10,126</u>	<u>(1,027)</u>	(10.14) %
Total	<u>\$ 10,388,673</u>	<u>\$ 11,102,847</u>	<u>\$ (714,174)</u>	(6.43) %

Earnings on investments decreased \$4,971 or 74.70% from the prior year. This decrease is due to the decrease in interest rates on the District's investments.

In fiscal year 2011, instruction and support services expenditures decreased because the District paid some salaries and fringe benefit costs from American Recovery and Reinvestment Act (ARRA) funds and Education Jobs grants in the non-major governmental funds. In fiscal year 2011, these costs were paid from the general fund.

Building Fund

The building fund had \$4,960 in revenues during fiscal year 2011. The building fund had \$561,484 in expenditures. During fiscal year 2011, the building fund's fund balance decreased \$556,524 from a fund balance of \$2,218,857 to \$1,662,333. The decrease in fund balance is due to expenditures related to the Ohio School Facilities construction project.

Classroom Facilities Fund

The classroom facilities fund had \$819,923 in revenues during fiscal year 2011. The classroom facilities fund had \$14,473,099 in expenditures. During fiscal year 2011, the classroom facilities fund's fund balance decreased \$13,653,176 from a fund balance of \$19,343,676 to \$5,690,500 due to expenditures related to the Ohio School Facilities Construction project.

**NORTHMOR LOCAL SCHOOL DISTRICT
MORROW COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
UNAUDITED
(Continued)**

General Fund Budgeting Highlights

The District's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The most significant budgeted fund is the general fund.

During the course of fiscal year 2011, the District amended its general fund multiple times. For the general fund, original budgeted revenues were \$10,372,174 and final budgeted revenues were \$10,368,884. Actual revenues for fiscal year 2011 were \$10,247,450. This represents a \$121,434 decrease under final budgeted revenues.

General fund original appropriations (appropriated expenditures) of \$10,507,504 were increased to \$10,630,235 in the final appropriations. The actual budget basis expenditures for fiscal year 2011 totaled \$10,567,141, which is \$63,094 lower than the final budget appropriations.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2011, the District had \$28,943,446 invested in land, land improvements, buildings and improvements, furniture and equipment, vehicles and construction in progress. This entire amount is reported in governmental activities. The following table shows fiscal year 2011 balances compared to 2010:

	Capital Assets at June 30 (Net of Depreciation)	
	<u>Governmental Activities</u>	
	<u>2011</u>	<u>2010</u>
Land	\$ 139,000	\$ 139,000
Land improvements	184,382	192,905
Building and improvements	743,243	772,193
Furniture and equipment	193,474	188,286
Vehicles	250,148	323,079
Construction in progress	<u>27,433,199</u>	<u>12,399,184</u>
 Total	 <u>\$ 28,943,446</u>	 <u>\$ 14,014,647</u>

The overall increase in capital assets of \$14,928,799 is due to capital outlays of \$15,087,037 exceeding depreciation expense of \$158,238 in the fiscal year.

See Note 8 to the basic financial statements for additional information.

Debt Administration

At June 30, 2011, the District had \$14,264,353 in general obligation bonds outstanding. Of this total, \$250,000 is due within one year and \$14,014,353 is due in more than one year.

The following table summarizes the bonds outstanding.

**NORTHMOR LOCAL SCHOOL DISTRICT
MORROW COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
UNAUDITED
(Continued)**

Outstanding Debt, at Year End

	Governmental Activities <u>2011</u>	Governmental Activities <u>2010</u>
Current interest bonds - Series 2008	\$ 13,860,000	\$ 14,095,000
Capital appreciation bonds - Series 2008	325,000	325,000
Accreted interest	<u>79,353</u>	<u>54,417</u>
Total	<u>\$ 14,264,353</u>	<u>\$ 14,474,417</u>

See Note 9 to the basic financial statements for additional information on the District's debt administration.

Current Financial Related Activities

The District has been able to use a very conservative financial approach. The District operates at the 20 mill floor and has an inside millage rate of 5.1. The District does benefit from a 1% income tax that was passed in 1992. There have been no requests by the District to its voters since 1992.

The Board and administration closely monitor expenditures to stay in line with the five-year financial forecast. Cuts to operating budgets and cuts in staffing throughout the District have been employed to avoid the need to seek additional money from the community. The Board and the administration have continued to monitor the State funding issue for schools.

The District continues to closely monitor income amounts. Property tax revenue estimates are based on historical growth patterns, including updates and reappraisals, and are substantiated by information provided for the upcoming fiscal year from the county auditor. Reappraisal for Morrow County is 2011. The property tax figures are based on historical collection levels. The Northmor Local School District is at the 20 mill floor. Property re-evaluations do directly impact the revenue. Estimates for income tax revenue are based on information provided by the department of taxation. The current tax rate is continuing. Current economic and employment conditions can substantially affect this amount. Revenue from State foundation payments are expected to remain consistent based on the current State formula, historical patterns are other indicators included in legislation. The property tax allocation is calculated as a fixed percentage of property tax receipts. The percentage is calculated as an average of this percentage from the prior three years. The growth in this revenue parallels the anticipated growth in property taxes. Tangible Personal Property tax is declining and will be significant after 2010 as indicated by HB66. Revenues from all other sources are based on historical patterns, and a conservative approach has been taken.

The amounts for salaries and benefits are based on existing negotiated agreements. For periods beyond the current agreements, historical patterns regarding salary and benefit increases have been used. Retirements or the lack thereof will affect this significantly. Anticipated expenditures in Purchased Services and Supplies are based on historical patterns. The District anticipates spending all reserve requirements. Capital outlay is based on historical patterns and a consideration of District growth and goals. Anticipated expenditures in Other, Advances and Transfers are based on historical patterns. Estimated encumbrances are based on historical patterns.

**NORTHMOR LOCAL SCHOOL DISTRICT
MORROW COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
UNAUDITED
(Continued)**

Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information contact: Ms. Tina Gabler, Treasurer, Northmor Local School District, 5247 Co. Rd. 29, Galion, Ohio 44833.

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**NORTHMOR LOCAL SCHOOL DISTRICT
MORROW COUNTY**

**STATEMENT OF NET ASSETS
JUNE 30, 2011**

	Governmental Activities
Assets:	
Equity in pooled cash and cash equivalents.	\$ 2,003,685
Cash with escrow agent.	140,270
Investments.	7,377,770
Receivables:	
Property taxes	4,383,646
Income taxes.	491,992
Intergovernmental	810,384
Accrued interest	228
Prepayments	15,776
Materials and supplies inventory.	16,195
Unamortized bond issuance costs	158,246
Capital assets:	
Land	139,000
Construction in progress.	27,433,199
Depreciable capital assets, net.	1,371,247
Capital assets, net	28,943,446
 Total assets.	 44,341,638
 Liabilities:	
Accounts payable.	26,915
Contracts payable.	1,362,700
Retainage payable	140,270
Accrued wages and benefits	1,093,156
Pension obligation payable.	254,722
Intergovernmental payable	75,046
Unearned revenue	2,969,309
Accrued interest payable	106,653
Long-term liabilities:	
Due within one year.	317,355
Due in more than one year.	15,213,015
 Total liabilities	 21,559,141
 Net Assets:	
Invested in capital assets, net of related debt.	22,103,400
Restricted for:	
Debt service.	343,208
Capital projects	297,540
Classroom facilities maintenance	166,731
Locally funded programs	4,664
State funded programs.	42,910
Federally funded programs	170,615
Public school support	26,364
Student activities	40,268
Other purposes	300,163
Unrestricted (deficit)	(713,366)
 Total net assets	 \$ 22,782,497

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**NORTHMOR LOCAL SCHOOL DISTRICT
MORROW COUNTY**

**STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

		Program Revenues		Net (Expense) Revenue and Changes in Net Assets
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities
Governmental activities:				
Instruction:				
Regular	\$ 4,878,874	\$ 604,282	\$ 313,654	\$ (3,960,938)
Special	1,306,171	17,631	930,796	(357,744)
Vocational	256,746	-	69,087	(187,659)
Other	985,501	-	-	(985,501)
Support services:				
Pupil	363,227	-	95,225	(268,002)
Instructional staff	843,437	-	256,719	(586,718)
Board of education	32,248	-	-	(32,248)
Administration	1,057,528	-	386,441	(671,087)
Fiscal	458,449	-	-	(458,449)
Operations and maintenance	882,475	40	187,020	(695,415)
Pupil transportation	751,350	-	-	(751,350)
Central	6,475	-	5,000	(1,475)
Operation of non-instructional services:				
Other non-instructional services	2,500	-	3,839	1,339
Food service operations	386,731	187,795	203,632	4,696
Extracurricular activities	324,737	93,775	-	(230,962)
Interest and fiscal charges	666,301	-	-	(666,301)
Total governmental activities	\$ 13,202,750	\$ 903,523	\$ 2,451,413	(9,847,814)
 General Revenues:				
Property taxes levied for:				
General purposes				2,959,782
Special revenue				67,557
Debt service				886,051
Capital projects				72,556
Income taxes levied for:				
General purposes				1,357,555
Grants and entitlements not restricted				
to specific programs				4,976,777
Investment earnings				21,552
Miscellaneous				23,626
Total general revenues				10,365,456
Change in net assets				517,642
Net assets at beginning of year				22,264,855
Net assets at end of year				\$ 22,782,497

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**NORTHMOR LOCAL SCHOOL DISTRICT
MORROW COUNTY**

**BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2011**

	<u>General</u>	<u>Building</u>	<u>Classroom Facilities</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:					
Equity in pooled cash and cash equivalents	\$ 52,232	\$ 927,046	\$ 266,807	\$ 682,033	\$ 1,928,118
Cash with escrow agent	-	-	140,270	-	140,270
Investments	-	778,236	6,599,534	-	7,377,770
Receivables:					
Property taxes	3,254,481	-	-	1,129,165	4,383,646
Income taxes	491,992	-	-	-	491,992
Accrued interest	228	-	-	-	228
Intergovernmental	-	-	623,531	186,853	810,384
Prepayments	15,776	-	-	-	15,776
Materials and supplies inventory	3,963	-	-	12,232	16,195
Due from other funds	16,036	-	-	-	16,036
Restricted assets:					
Equity in pooled cash and cash equivalents	75,567	-	-	-	75,567
Total assets	<u>\$ 3,910,275</u>	<u>\$ 1,705,282</u>	<u>\$ 7,630,142</u>	<u>\$ 2,010,283</u>	<u>\$ 15,255,982</u>
Liabilities:					
Accounts payable	\$ 23,687	\$ -	\$ -	\$ 3,228	\$ 26,915
Contracts payable	-	42,932	1,319,768	-	1,362,700
Retainage payable	-	-	140,270	-	140,270
Accrued wages and benefits	940,726	-	-	152,430	1,093,156
Compensated absences payable	31,700	-	-	-	31,700
Intergovernmental payable	69,126	17	551	5,352	75,046
Unearned revenue	2,205,962	-	-	763,347	2,969,309
Deferred revenue	404,355	-	479,053	138,265	1,021,673
Pension obligation payable	229,409	-	-	25,313	254,722
Due to other funds	-	-	-	16,036	16,036
Total liabilities	<u>3,904,965</u>	<u>42,949</u>	<u>1,939,642</u>	<u>1,103,971</u>	<u>6,991,527</u>
Fund Balances:					
Nonspendable:					
Materials and supplies inventory	3,963	-	-	12,232	16,195
Prepays	15,776	-	-	-	15,776
Unclaimed monies	25,748	-	-	-	25,748
Restricted:					
Debt service	-	-	-	330,494	330,494
Capital improvements	-	1,662,333	5,690,500	158,404	7,511,237
Classroom facilities maintenance	-	-	-	166,541	166,541
Food service operations	-	-	-	27,392	27,392
Special education	-	-	-	24,989	24,989
Targeted academic assistance	-	-	-	16,256	16,256
Vocational education	-	-	-	226	226
Other purposes	-	-	-	180,504	180,504
Textbooks	284,337	-	-	-	284,337
Extracurricular	-	-	-	40,268	40,268
Committed:					
Student and staff support	43,112	-	-	-	43,112
Assigned:					
Student instruction	4,699	-	-	-	4,699
Student and staff support	3,875	-	-	-	3,875
Public school support	26,364	-	-	-	26,364
Unassigned (deficit)	(402,564)	-	-	(50,994)	(453,558)
Total fund balances	<u>5,310</u>	<u>1,662,333</u>	<u>5,690,500</u>	<u>906,312</u>	<u>8,264,455</u>
Total liabilities and fund balances	<u>\$ 3,910,275</u>	<u>\$ 1,705,282</u>	<u>\$ 7,630,142</u>	<u>\$ 2,010,283</u>	<u>\$ 15,255,982</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**NORTHMOR LOCAL SCHOOL DISTRICT
MORROW COUNTY**

**RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2011**

Total governmental fund balances		\$ 8,264,455
<i>Amounts reported for governmental activities on the statement of net assets are different because:</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		28,943,446
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		
Property taxes receivable	\$ 542,545	
Intergovernmental receivable	479,053	
Accrued interest receivable	75	
Total	1,021,673	1,021,673
Accrued interest payable is not due and payable in the current period and therefore is not reported in the funds.		(106,653)
Unamortized bond issuance costs are not recognized in the funds		158,246
Unamortized premiums on bond issues are not recognized in the funds.		(366,503)
Long-term liabilities that are not due and payable in the current period and therefore are not reported in the funds.		
Compensated absences	(867,814)	
General obligation bonds	(14,264,353)	
Total	(15,132,167)	(15,132,167)
Net assets of governmental activities		\$ 22,782,497

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**NORTHMOR LOCAL SCHOOL DISTRICT
MORROW COUNTY**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

	<u>General</u>	<u>Building</u>	<u>Classroom Facilities</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:					
From local sources:					
Property taxes	\$ 2,879,851	\$ -	\$ -	\$ 999,722	\$ 3,879,573
Income taxes	1,357,555	-	-	-	1,357,555
Tuition	598,269	-	-	-	598,269
Earnings on investments	1,684	4,960	12,803	2,030	21,477
Charges for services	-	-	-	187,795	187,795
Extracurricular	23,936	-	-	69,839	93,775
Classroom materials and fees	23,344	-	-	-	23,344
Rental income	40	-	-	-	40
Contributions and donations	300	-	-	-	300
Other local revenues	23,626	-	-	-	23,626
Intergovernmental - state	5,427,231	-	807,120	16,266	6,250,617
Intergovernmental - federal	-	-	-	2,028,530	2,028,530
Total revenues	<u>10,335,836</u>	<u>4,960</u>	<u>819,923</u>	<u>3,304,182</u>	<u>14,464,901</u>
Expenditures:					
Current:					
Instruction:					
Regular	4,528,395	-	-	291,034	4,819,429
Special	906,785	-	-	366,156	1,272,941
Vocational	237,574	-	-	14,191	251,765
Other	985,501	-	-	-	985,501
Support services:					
Pupil	275,492	-	-	83,498	358,990
Instructional staff	626,070	-	-	204,671	830,741
Board of education	32,248	-	-	-	32,248
Administration	719,493	-	-	333,213	1,052,706
Fiscal	432,520	-	-	29,414	461,934
Operations and maintenance	697,097	-	-	178,476	875,573
Pupil transportation	690,812	-	-	-	690,812
Central	1,485	-	-	4,990	6,475
Operation of non-instructional services:					
Other non-instructional services	-	-	-	2,500	2,500
Food service operations	-	-	-	381,475	381,475
Extracurricular activities	246,102	-	-	66,512	312,614
Facilities acquisition and construction	9,099	561,484	14,473,099	-	15,043,682
Debt service:					
Principal retirement	-	-	-	235,000	235,000
Interest and fiscal charges	-	-	-	650,844	650,844
Total expenditures	<u>10,388,673</u>	<u>561,484</u>	<u>14,473,099</u>	<u>2,841,974</u>	<u>28,265,230</u>
Net change in fund balances	(52,837)	(556,524)	(13,653,176)	462,208	(13,800,329)
Fund balances at beginning of year (restated).	<u>58,147</u>	<u>2,218,857</u>	<u>19,343,676</u>	<u>444,104</u>	<u>22,064,784</u>
Fund balances at end of year.	<u>\$ 5,310</u>	<u>\$ 1,662,333</u>	<u>\$ 5,690,500</u>	<u>\$ 906,312</u>	<u>\$ 8,264,455</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**NORTHMOR LOCAL SCHOOL DISTRICT
MORROW COUNTY**

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

Net change in fund balances - total governmental funds **\$ (13,800,329)**

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

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

Capital asset additions	\$ 15,087,037	
Current year depreciation	(158,238)	
Total		14,928,799

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

Property taxes	100,410	
Intergovernmental revenue	(850,957)	
Earnings on investments	(246)	
Total		(750,793)

In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due. The following items resulted in more interest being reported in the statement of activities:

Decrease in accrued interest payable	1,258	
Accreted interest on capital appreciation bonds	(24,936)	
Amortization of bond premiums	14,468	
Amortization of bond issuance costs	(6,247)	
Total		(15,457)

Principal payment on bonds is an expenditure in the governmental funds, but they repayment reduces long-term liabilities in the statement of net assets.

235,000

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

(79,578)

Change in net assets of governmental activities **\$ 517,642**

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**NORTHMOR LOCAL SCHOOL DISTRICT
MORROW COUNTY**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues:				
From local sources:				
Property taxes	\$ 2,975,937	\$ 2,850,201	\$ 2,850,201	\$ -
Income taxes	1,344,896	1,322,608	1,322,608	-
Tuition	566,467	595,490	598,269	2,779
Earnings on investments	6,179	6,063	2,131	(3,932)
Classroom materials and fees	19,074	22,969	23,344	375
Rental income	163	60	40	(20)
Other local revenues	6,595	21,707	23,626	1,919
Intergovernmental - state	5,452,863	5,549,786	5,427,231	(122,555)
Total revenues	<u>10,372,174</u>	<u>10,368,884</u>	<u>10,247,450</u>	<u>(121,434)</u>
Expenditures:				
Current:				
Instruction:				
Regular	4,456,383	4,564,835	4,615,095	(50,260)
Special	1,003,027	971,679	896,575	75,104
Vocational	238,605	241,878	236,950	4,928
Other	1,137,773	1,008,335	985,501	22,834
Support services:				
Pupil	250,955	255,450	247,788	7,662
Instructional staff	576,639	590,968	625,029	(34,061)
Board of education	16,325	38,838	33,203	5,635
Administration	681,768	766,097	759,821	6,276
Fiscal	463,278	462,832	434,088	28,744
Operations and maintenance	804,027	764,020	772,217	(8,197)
Pupil transportation	666,028	742,555	735,653	6,902
Central	954	1,560	1,485	75
Extracurricular activities	201,617	211,063	214,637	(3,574)
Facilities acquisition and construction	10,125	10,125	9,099	1,026
Total expenditures	<u>10,507,504</u>	<u>10,630,235</u>	<u>10,567,141</u>	<u>63,094</u>
Net change in fund balance	(135,330)	(261,351)	(319,691)	(58,340)
Fund balance at beginning of year (restated).	293,810	293,810	293,810	-
Prior year encumbrances appropriated	42,160	42,160	42,160	-
Fund balance at end of year	<u>\$ 200,640</u>	<u>\$ 74,619</u>	<u>\$ 16,279</u>	<u>\$ (58,340)</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**NORTHMOR LOCAL SCHOOL DISTRICT
MORROW COUNTY**

**STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2011**

	Private-Purpose Trust	
	Scholarship	Agency
Assets:		
Equity in pooled cash and cash equivalents	\$ 5,636	\$ 19,916
Total assets.	5,636	\$ 19,916
Liabilities:		
Accounts payable.	-	\$ 1,200
Due to students.	-	18,716
Total liabilities	-	\$ 19,916
Net assets:		
Held in trust for scholarships	5,636	
Total net assets	\$ 5,636	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**NORTHMOR LOCAL SCHOOL DISTRICT
MORROW COUNTY**

**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

	Private-Purpose Trust
	Scholarship
Deductions:	
Scholarships awarded	\$ 1,100
Change in net assets.	(1,100)
Net assets at beginning of year	6,736
Net assets at end of year.	\$ 5,636

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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**NORTHMOR LOCAL SCHOOL DISTRICT
MORROW COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT

The Northmor Local School District (the "District") is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The District is a local district as defined by Section 3311.03 of the Ohio Revised Code. The District operates under an elected Board of Education and is responsible for providing public education to residents of the District.

The District ranks as the 444th largest by total enrollment among the 918 public and community school districts in the State. Current enrollment as of June 30, 2011 was 1,125. The District employed 90 certified employees and 48 non-certified employees.

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America (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 District also applies Financial Accounting Standards Board (FASB) guidance issued on or before November 30, 1989, to its governmental activities provided it does not conflict with or contradict GASB pronouncements. The District's significant accounting policies are described below.

A. Reporting Entity

The reporting entity has been defined in accordance with GASB Statement No. 14, "The Financial Reporting Entity" as amended by GASB Statement No. 39, "Determining Whether Certain Organizations Are Component Units". The reporting entity is composed of the primary government and component units. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the District. For the District, this includes general operations, food service and student related activities of the District.

Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the organization's Governing Board and (1) the District is able to significantly influence the programs or services performed or provided by the organization; or (2) the District is legally entitled to or can otherwise access the organization's resources; or (3) the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or (4) the District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the District in that the District approves the budget, the issuance of debt or the levying of taxes. Certain organizations are also included as component units if the nature and significance of the relationship between the primary government and the organization is such that exclusion by the primary government would render the primary governments financial statements incomplete or misleading. Based upon the application of these criteria, the District has no component units. The basic financial statements of the reporting entity include only those of the District (the primary government).

**NORTHMOR LOCAL SCHOOL DISTRICT
MORROW COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

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

The following organizations are described due to their relationship to the District:

JOINTLY GOVERNED ORGANIZATIONS

Heartland Council of Governments/North Central Ohio Computer Cooperative (the "COG")

The COG is a jointly governed organization among 16 school districts, 1 educational service center and a career center. The COG is an association of public school districts within the boundaries of Ashland, Crawford, Huron, Marion, Morrow, Richland, Seneca, and Wyandot counties. The COG 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. Each member school district supports the COG based on a per pupil charge dependent upon the software package utilized. The COG is governed by a Cooperative Assembly consisting of superintendents of the member school districts. The degree of control exercised by any school district is limited to its representation on the Cooperative Assembly. During fiscal year 2011, the District paid \$80,774 to the COG for various services. Financial information can be obtained from the treasurer for the Pioneer Career and Technology Center, who serves as fiscal agent, at 27 Ryan Road, Shelby, Ohio 44875-0309.

The Work Force Preparation Regional Council of Governments

The District participates in a regional council of governments whose purpose is to apply for, administer, and deliver services in member districts pursuant to the Jobs for Ohio's Graduates program and related or similar state and federal programs. Financial information can be obtained from Christopher Bell, Treasurer, Delaware Area Career Center, who serves as fiscal agent, at 1610 State Route 521, Delaware, Ohio 43015.

RELATED ENTITY

Perry Cook Memorial Library (the "Library")

The District appoints the governing board of the Library, however, the District cannot influence the Library's operation nor does the Library represent a potential financial benefit for or burden on the District. The District serves in a ministerial capacity as taxing authority for the Library. Once the Library Board determines to present a levy to the voters, including the determination of its rate and duration, the District must place the levy on the ballot. The Library may not issue debt. The Library did not receive any funding from the District during 2011.

INSURANCE PURCHASING POOL

Ohio School Boards Association Workers' Compensation Group Rating Plan

The 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 (the "GRP") was established through the Ohio School Boards Association (OSBA) as a group purchasing pool.

**NORTHMOR LOCAL SCHOOL DISTRICT
MORROW COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

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

B. Fund Accounting

The District uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self balancing set of accounts. There are three categories of funds: governmental, proprietary and fiduciary.

GOVERNMENTAL FUNDS

Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses 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 or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the District's major governmental funds:

General fund -The general fund is used to account for and report all financial resources not accounted for and reported 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.

Building fund - The building capital projects fund is used to account for financial resources and expenditures related to the school facilities construction project.

Classroom facilities fund - The classroom facilities capital projects fund is used to account for financial resources and expenditures related to the school facilities construction project.

Other governmental funds of the District are used to account for (a) financial resources that are restricted, committed, or assigned to expenditures for capital outlays including the acquisition or construction of capital facilities and other capital assets, (b) specific revenue sources that are restricted or committed to an expenditure for specified purposes other than debt service or capital projects and (c) financial resources that are restricted, committed, or assigned to expenditure for principal and interest.

PROPRIETARY FUND

Proprietary funds are used to account for the District's ongoing activities which are similar to those often found in the private sector. The District has no proprietary funds.

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 District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the District's own programs. The District's only trust fund is a private-purpose trust which accounts for scholarship programs for students. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The District's agency fund accounts for student activities.

**NORTHMOR LOCAL SCHOOL DISTRICT
MORROW COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

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

C. Basis of Presentation and Measurement Focus

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

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the governmental activities of the District. 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 amounts paid by the recipient of goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues not classified as program revenues are presented as general revenues of the District.

The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the District are included on the statement of net assets.

Fund Financial Statements - Fund financial statements report detailed information about the District. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column, and all nonmajor funds are aggregated into one column. Fiduciary funds are reported by fund type.

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

The private-purpose trust fund is reported using the economic resources measurement focus. Agency funds do not report a measurement focus as they do not report operations.

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. Fiduciary funds also use the accrual basis of accounting.

Revenues - Exchange and Nonexchange 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 District, available means expected to be received within sixty days of fiscal year end.

**NORTHMOR LOCAL SCHOOL DISTRICT
MORROW COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

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

D. Basis of Accounting (Continued)

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, income taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (See Note 6). Revenue from income taxes is recognized in the period in which the income is earned (See Note 10). Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

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

Unearned Revenue and Deferred Revenue - Unearned revenue and deferred revenue arise when assets are recognized before revenue recognition criteria have been satisfied.

Property taxes for which there is an enforceable legal claim as of June 30, 2011, but which were levied to finance fiscal year 2012 operations, and other revenues received in advance of the fiscal year for which they are intended to finance, have been recorded as unearned revenue. Grants and entitlements received before the eligibility requirements are met are recorded as deferred revenue on the governmental fund financial statements.

On governmental fund financial statements, receivables that will not be collected within the available period, including delinquent property taxes due at June 30, 2011, are recorded as deferred revenue.

Expenses/Expenditures - On the accrual basis of accounting, expenses are recognized at the time they are incurred. The entitlement value of donated commodities used during the year is reported in the statement of revenues, expenditures and changes in fund balances as an expenditure with a like amount reported as intergovernmental 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. Allocations of cost, such as depreciation and amortization, is not recognized in governmental funds.

E. Budgets

The District is required by State statute to adopt an annual appropriated cash basis budget for all funds (except agency funds). The specific timetable for fiscal year 2011 is as follows:

1. Prior to January 15, the Superintendent and Treasurer submit to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing for all funds. Public hearings are publicized and conducted to obtain taxpayers' comments. The purpose of this budget document is to reflect the need for existing (or increased) tax rates.

**NORTHMOR LOCAL SCHOOL DISTRICT
MORROW COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

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

E. Budgets (Continued)

2. By no later than January 20, the Board-adopted budget is filed with the Morrow County Budget Commission for tax rate determination. The Morrow County Commissioners waived this requirement for 2011.
3. Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the Commission's certificate of estimated resources which states the projected revenue of each fund. Prior to July 1, the District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the certificate of estimated resources. The revised budget then serves as a basis for the appropriation measure. On or about July 1, the certificate is amended to include any unencumbered balances from the preceding year as reported by the District Treasurer. The certificate may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The budget figures, as shown in the accompanying budgetary statement, reflect the amounts set forth in the original and final certificates of estimated resources issued for fiscal year 2011.
4. By July 1, the annual appropriation resolution is legally enacted by the Board of Education at the fund level of expenditures, which is the legal level of budgetary control. State statute permits a temporary appropriation to be effective until no later than October 1 of each year. Although the legal level of budgetary control was established at the fund level of expenditures, the District has elected to present budgetary statement comparisons at the fund and function level of expenditures. Resolution appropriations by fund must be within the estimated resources as certified by the County Budget Commission and the total of expenditures and encumbrances may not exceed the appropriation totals.
5. Any revisions that alter the total of any fund appropriations must be approved by the Board of Education.
6. Formal budgetary integration is employed as a management control device during the year for all funds consistent with the general obligation bond indenture and other statutory provisions.
7. Appropriations amounts are as originally adopted, or as amended by the Board of Education through the year by supplemental appropriations, which either reallocated or increased the original appropriated amounts. The budget figures, as shown in the accompanying budgetary statement, reflect the original and final appropriation amounts including all amendments and modifications.
8. Unencumbered appropriations lapse at fiscal year end. Encumbered appropriations are carried forward to the succeeding fiscal year and need not be reappropriated. Expenditures may not legally exceed budgeted appropriations at the fund level.
9. Encumbrance accounting is utilized with District funds in the normal course of operations, for purchase orders and contract related expenditures. An encumbrance is a reserve on the available spending authority due to commitment for a future expenditure and does not represent a liability. For governmental fund types, encumbrances outstanding at year-end appear as a reserve to the fund balance on a GAAP basis and as the equivalent of expenditures on a non-GAAP budgetary basis in order to demonstrate legal compliance.

**NORTHMOR LOCAL SCHOOL DISTRICT
MORROW COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

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

E. Budgets (Continued)

Note 15 provides a reconciliation of the budgetary and GAAP basis of accounting for the general fund.

F. Cash and Investments

To improve cash management, cash received by the District is pooled in a central bank account. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through the District's records. Each fund's interest in the pool is presented as "equity in pooled cash and cash equivalents" and "investments" on the basic financial statements.

During fiscal year 2011, investments were limited to the State Treasury Asset Reserve of Ohio (STAR Ohio), Federal National Mortgage Association (FNMA) discount note securities, Federal Home Loan Bank (FHLB) discount note securities, Federal Home Loan Mortgage Corporation (FHLMC) discount note securities, Federal Farm Credit Bank (FFCB) discount note securities, and a non-negotiable certificate of deposit. Except for nonparticipating investment contracts, investments are reported at fair value, which is based on quoted market prices. Nonparticipating investment contracts, such as repurchase agreements and non-negotiable certificates of deposits, are reported at cost.

The District has invested funds in STAR Ohio during fiscal year 2011. 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 shares price which is the price the investment could be sold for on June 30, 2011.

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund or by policy of the Board of Education. Interest revenue credited to the general fund during fiscal year 2011 amounted to \$1,684, which includes \$1,615 assigned from other funds.

For presentation on the basic financial statements, investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the District are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

An analysis of the District's investment account at fiscal year end is provided in Note 4.

G. Inventory

On government-wide and fund financial statements, purchased inventories are presented at the lower of cost or market and donated commodities are presented at their entitlement value. Inventories are recorded on a first-in, first-out basis and are expensed when used. Inventories are accounted for using the consumption method on the fund statements and on the government-wide statements.

On the fund financial statements, reported material and supplies inventory is equally offset by a nonspendable fund balance in the governmental funds which indicates that it does not constitute available spendable resources even though it is a component of net current assets.

**NORTHMOR LOCAL SCHOOL DISTRICT
MORROW COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

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

G. Inventory (Continued)

Inventory consists of expendable supplies held for consumption, donated food and purchased food.

H. Capital Assets

General capital assets result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets, but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and disposals during the year. Donated capital assets are recorded at their fair market values as of the date received. The District's capitalization threshold is \$2,500. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. The District does not possess infrastructure.

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

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>
Land improvements	20 years
Buildings and improvements	45 years
Furniture and equipment	5 - 15 years
Vehicles	6 - 15 years

I. Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "due to/from other funds." These amounts are eliminated in the governmental activities column on the statement of net assets.

J. Compensated Absences

Compensated absences of the District consist of vacation leave and sick leave liability to the extent that payments to the employee for these absences are attributable to services already rendered and are not contingent on a specific event that is outside the control of the District and the employee.

In accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences", a liability for vacation leave is accrued if a) the employees' rights to payment are attributable to services already rendered; and b) it is probable that the employer will compensate the employees for the benefits through paid time off or other means, such as cash payment at termination or retirement. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination (severance) payments.

**NORTHMOR LOCAL SCHOOL DISTRICT
MORROW COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

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

J. Compensated Absences (Continued)

A liability for severance is accrued using the vesting method; i.e., the liability is based on the sick leave accumulated at June 30, 2011, by those employees who are currently eligible to receive termination (severance) payments, as well as those employees expected to become eligible in the future. For purposes of establishing a liability for sick leave on employees expected to become eligible to retire in the future, all employees age fifty or older with ten or more years of service or all employees with twenty or more years of service regardless of their age, were considered expected to become eligible to retire in accordance with GASB Statement No. 16.

The total liability for vacation and sick leave payments has been calculated using pay rates in effect at June 30, 2011 and reduced to the maximum payment allowed by labor contract and/or statute, plus any applicable additional salary related payments.

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

For governmental fund financial statements, the current portion of unpaid compensated absences is the amount expected to be paid using expendable available resources. These amounts are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated unpaid leave are paid. The noncurrent portion of the liability is not reported.

K. Accrued Liabilities and Long-Term Obligations

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

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the funds. However, compensated absences that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Bonds are recognized as a liability on the fund financial statements when due.

L. Fund Balance

Fund balance is divided into five classifications based primarily on the extent to which the District is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

Nonspendable - The nonspendable fund balance classification includes amounts that cannot be spent because they are not in spendable form or legally required to be maintained intact. The "not in spendable form" criterion includes items that are not expected to be converted to cash. It also includes the long-term amount of loans receivable.

Restricted - Fund balance is reported as restricted when constraints are placed on the use of resources that are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments, or imposed by law through constitutional provisions or enabling legislation.

**NORTHMOR LOCAL SCHOOL DISTRICT
MORROW COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

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

L. Fund Balance (Continued)

Committed - The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by a formal action (resolution) of the District Board of Education (the highest level of decision making authority). Those committed amounts cannot be used for any other purpose unless the District Board of Education removes or changes the specified use by taking the same type of action (resolution) it employed to previously commit those amounts. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned - Amounts in the assigned fund balance classification are intended to be used by the District for specific purposes but do not meet the criteria to be classified as restricted nor committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the general fund, assigned amounts represent intended uses established by policies of the District Board of Education, which includes giving the Treasurer the authority to constrain monies for intended purposes.

Unassigned - Unassigned fund balance is the residual classification for the general fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is only used to report a deficit fund balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

The District applies restricted resources first when expenditures are incurred for purposes for which restricted and unrestricted (committed, assigned, and unassigned) fund balance is available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

M. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consist of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through enabling legislation or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The amount restricted for other purposes includes amounts restricted by State statute for textbooks/instructional materials, and food service operations.

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

**NORTHMOR LOCAL SCHOOL DISTRICT
MORROW COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

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

N. Prepayments

Certain payments to vendors reflect the costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. These items are reported as assets on the balance sheet using the consumption method. A current asset for the prepaid amounts is recorded at the time of the purchase and the expenditure/expense is reported in the year in which services are consumed.

O. Estimates

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

P. Restricted Assets

Restricted assets in the general fund represent cash and cash equivalents set-aside to establish a textbook reserve. These reserves are required by State statute. A schedule of statutory reserves is presented in Note 17.

Q. Bond Issuance Costs/Premiums

On government-wide financial statements, issuance costs are deferred and amortized over the term of the bonds using the straight-line method, which approximates the effective interest method. Unamortized issuance costs are recorded as a separate line item on the statement of net assets.

Bond premiums are deferred and amortized over the term of the bonds. Bond premiums are presented as an addition to the face amount of the bonds.

On the governmental fund financial statements, issuance costs and bond premiums are recognized in the current period. A reconciliation between the bonds face value and the amount reported on the statement of net assets is presented in Note 9.

R. Interfund Activity

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. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the basic financial statements.

S. 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 year 2011.

**NORTHMOR LOCAL SCHOOL DISTRICT
MORROW COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principles

For fiscal year 2011, the District has implemented GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions", and GASB Statement No. 59, "Financial Instruments Omnibus".

GASB Statement No. 54 establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. GASB Statement No. 54 also clarifies the definitions of governmental fund types.

GASB Statement No. 59 updates and improves guidance for financial reporting and disclosure requirements of certain financial instruments and external investment pools. The implementation of GASB Statement No. 59 did not have an effect on the financial statements of the District.

B. Fund Reclassifications

Fund reclassifications are required in order to report funds in accordance with GASB Statement No 54. These fund reclassifications had the following effect on the District's governmental fund balances as previously reported:

	<u>General</u>	<u>Building</u>	<u>Classroom Facilities</u>	<u>Nonmajor Governmental</u>	<u>Total Governmental</u>
Fund balance as previously reported	\$ 28,612	\$ 2,218,857	\$ 19,343,676	\$ 473,639	\$ 22,064,784
Fund reclassifications:					
Uniform school supplies	120	-	-	(120)	-
Public school support	<u>29,415</u>	<u>-</u>	<u>-</u>	<u>(29,415)</u>	<u>-</u>
Total fund reclassifications	<u>29,535</u>	<u>-</u>	<u>-</u>	<u>(29,535)</u>	<u>-</u>
Restated fund balance at July 1, 2010	<u>\$ 58,147</u>	<u>\$ 2,218,857</u>	<u>\$ 19,343,676</u>	<u>\$ 444,104</u>	<u>\$ 22,064,784</u>

The fund reclassifications did not have an effect on net assets as previously reported.

C. Budgetary Prior Period Adjustment

In prior years certain funds that are legally budgeted in separate special revenue funds were considered part of the general fund on a budgetary basis. The District has elected to report only the legally budgeted general fund in the budgetary statement; therefore, a restatement to the beginning budgetary balance is required. The restatement of the general fund's budgetary-basis fund balance at June 30, 2010 is as follows:

**NORTHMOR LOCAL SCHOOL DISTRICT
MORROW COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

C. Budgetary Prior Period Adjustment (Continued)

Budgetary Basis

	<u>General Fund</u>
Balance at June 30, 2010	\$ 319,558
Funds budgeted elsewhere	(25,748)
Restated balance at July 1, 2010	\$ 293,810

D. Deficit Fund Balances

Fund balances at June 30, 2011 included the following individual fund deficits:

<u>Nonmajor funds</u>	<u>Deficit</u>
Management information system	\$ 33
Race to the top	43,864
Title I	7,097

The general fund is liable for any deficits in these funds and provides transfers when cash is required, not when accruals occur. The deficit fund balances resulted from adjustments for accrued liabilities.

NOTE 4 - DEPOSITS AND INVESTMENTS

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

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

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

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

Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts including passbook accounts.

**NORTHMOR LOCAL SCHOOL DISTRICT
MORROW COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily 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 items (1) and (2) above and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio);
7. Certain banker's acceptance and commercial paper notes for a period not to exceed one hundred eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest classifications by at least two nationally recognized rating agencies.

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

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

**NORTHMOR LOCAL SCHOOL DISTRICT
MORROW COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

A. Cash on Hand

At fiscal year end, the District had \$200 in undeposited cash on hand which is included on the financial statements of the District as part of "equity in pooled cash and cash equivalents".

B. Cash with escrow agent

At June 30, 2011, the District had \$140,270 on deposit in retainage accounts related to the Ohio School Facilities Construction Project. This amount is included on the financial statements as "cash with escrow agent" and is not included in deposits with financial institutions below.

C. Deposits with Financial Institutions

At June 30, 2011, the carrying amount of all District deposits was \$1,987,037. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2011, \$1,641,940 of the District's bank balance of \$1,975,589 was exposed to custodial risk as discussed below, while \$333,649 was covered by the FDIC.

Custodial credit risk is the risk that, in the event of bank failure, the District's deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank 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 District. The District has no deposit policy for custodial credit risk beyond the requirements of State statute. Although the securities were held by the pledging institutions' trust department and all statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the District to a successful claim by the FDIC.

D. Investments

As of June 30, 2011, the District had the following investments and maturities:

<u>Investment type</u>	<u>Fair Value</u>	<u>Investment Maturities</u>	
		<u>6 months or less</u>	<u>7 to 12 months</u>
FNMA discount notes	\$ 2,826,925	\$ 2,524,879	\$ 302,046
FHLB discount notes	1,526,406	1,300,924	225,482
FHLMC discount notes	2,249,641	2,249,641	-
FFCB discount notes	774,798	774,798	-
STAR Ohio	42,000	42,000	-
Total	<u>\$ 7,419,770</u>	<u>\$ 6,892,242</u>	<u>\$ 527,528</u>

Interest Rate Risk: As a means of limiting its exposure to fair value losses arising from rising interest rates and according to State law, the District's investment policy limits investment portfolio maturities to five years or less.

**NORTHMOR LOCAL SCHOOL DISTRICT
MORROW COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

D. Investments (Continued)

Credit Risk: The District's investments, except for STAR Ohio, were rated AAA and Aaa by Standard & Poor's and Moody's Investor Services, respectively. Standard & Poor's has assigned STAR Ohio an AAAM money market rating. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service.

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 federal agency securities are exposed to custodial credit risk in that they are uninsured, unregistered and held by the counterparty's trust department or agent, but not in the District's name. 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 that may be invested in any one issuer. The following table includes the percentage of each investment type held by the District at June 30, 2011:

<u>Investment type</u>	<u>Fair Value</u>	<u>% of Total</u>
FNMA discount notes	\$ 2,826,925	38.10
FHLB discount notes	1,526,406	20.57
FHLMC discount notes	2,249,641	30.32
FFCB discount notes	774,798	10.44
STAR Ohio	<u>42,000</u>	<u>0.57</u>
Total	<u>\$ 7,419,770</u>	<u>100.00</u>

E. Reconciliation of Cash and Investments to the Statement of Net Assets

The following is a reconciliation of cash and investments as reported in the note above to cash and investments as reported on the statement of net assets as of June 30, 2011:

<u>Cash and investments per note</u>	
Carrying amount of deposits	\$ 1,987,037
Investments	7,419,770
Cash with escrow agent	140,270
Cash on hand	<u>200</u>
Total	<u>\$ 9,547,277</u>
 <u>Cash and investments per statement of net assets</u>	
Governmental activities	\$ 9,521,725
Private-purpose trust funds	5,636
Agency funds	<u>19,916</u>
Total	<u>\$ 9,547,277</u>

**NORTHMOR LOCAL SCHOOL DISTRICT
MORROW COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

NOTE 5 - INTERFUND TRANSACTIONS

Interfund balances at June 30, 2011, as reported on the fund statements, consist of the following amounts due to/from other funds:

<u>Receivable fund</u>	<u>Payable fund</u>	<u>Amount</u>
General fund	Nonmajor governmental funds	\$ 16,036

The primary purpose of the interfund balances is to cover negative cash balances in specific funds where revenues were requested, but were not received by June 30. These interfund balances will be repaid once the anticipated revenues are received. The District met the exception requirements of Ohio Revised Code Section 3315.20, allowing a negative cash balance in these funds.

Interfund balances between governmental funds are eliminated on the government-wide financial statements.

NOTE 6 - PROPERTY TAXES

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

Property taxes include amounts levied against all real property, public utility property, and certain tangible personal (used in business) property located in the District. Real property tax revenues received in calendar year 2011 represent the collection of calendar year 2010 taxes. Real property taxes received in calendar year 2011 were levied after April 1, 2010, on the assessed values as of January 1, 2010, 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 property tax revenues received in calendar year 2011 represent the collection of calendar year 2010 taxes. Public utility real and tangible personal property taxes received in calendar year 2011 became a lien on December 31, 2009, were levied after April 1, 2010, and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

The District receives property taxes from Morrow, Richland, and Marion Counties. The County Auditors periodically advances to the District its portion of the taxes collected. Second-half real property tax payments collected by the Counties by June 30, 2011, are available to finance fiscal year 2011 operations. The amount available as an advance at June 30, 2011 was \$644,239 in the general fund, \$196,543 in the bond retirement debt service fund (a nonmajor governmental fund), \$30,523 in the permanent improvement fund (a nonmajor governmental fund) and \$487 in the classroom facilities maintenance fund (a nonmajor governmental fund). This amount is recorded as revenue. The amount available as an advance at June 30, 2010 was \$608,239 in the general fund, \$186,219 in the bond retirement debt service fund (a nonmajor governmental fund), \$29,005 in the permanent improvement fund (a nonmajor governmental fund) and \$336 in the classroom facilities maintenance fund (a nonmajor governmental fund). This amount is recorded as revenue. The amount of second-half real property taxes available for advance at fiscal year-end can vary based on the date the tax bills are sent.

**NORTHMOR LOCAL SCHOOL DISTRICT
MORROW COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

NOTE 6 - PROPERTY TAXES - (Continued)

Accrued property taxes receivable includes real property, public utility property and delinquent tangible personal property taxes which are measurable as of June 30, 2011 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to unearned revenue.

On the accrual basis of accounting, collectible delinquent property taxes have been recorded as a receivable and revenue, while on a modified accrual basis of accounting the revenue has been deferred.

The assessed values upon which the fiscal year 2011 taxes were collected are:

	2010 Second Half Collections		2011 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and other real estate	\$ 145,339,740	95.08	\$ 139,561,780	94.99
Public utility personal	<u>7,512,820</u>	<u>4.92</u>	<u>7,363,270</u>	<u>5.01</u>
Total	<u>\$ 152,852,560</u>	<u>100.00</u>	<u>\$ 146,925,050</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation	34.54		34.54	

NOTE 7 - RECEIVABLES

Receivables at June 30, 2011 consisted of taxes, accrued interest and intergovernmental grants and entitlements. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs and the current year guarantee of federal funds. A summary of the principal items of receivables reported on the statement of net assets follows:

Governmental activities:	
Property taxes	\$ 4,383,646
Income taxes	491,992
Intergovernmental	810,384
Accrued interest	<u>228</u>
Total	<u>\$ 5,686,250</u>

Receivables have been disaggregated on the face of the basic financial statements. All receivables are expected to be collected within the subsequent year with the exception of the \$623,531 intergovernmental receivable related to the District's Ohio Schools Facilities Commission (OSFC) project which will be collected over the term of the project.

**NORTHMOR LOCAL SCHOOL DISTRICT
MORROW COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

NOTE 8 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2011, was as follows:

	Balance <u>06/30/10</u>	<u>Additions</u>	<u>Disposals</u>	Balance <u>06/30/11</u>
Governmental activities:				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 139,000	\$ -	\$ -	\$ 139,000
Construction in progress	<u>12,399,184</u>	<u>15,034,015</u>	-	<u>27,433,199</u>
Total capital assets, not being depreciated	<u>12,538,184</u>	<u>15,034,015</u>	-	<u>27,572,199</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	408,207	6,844	-	415,051
Buildings and improvements	2,568,613	-	-	2,568,613
Furniture and equipment	913,492	32,941	-	946,433
Vehicles	<u>1,133,776</u>	<u>13,237</u>	-	<u>1,147,013</u>
Total capital assets, being depreciated	<u>5,024,088</u>	<u>53,022</u>	-	<u>5,077,110</u>
<i>Less: accumulated depreciation</i>				
Land improvements	(215,302)	(15,367)	-	(230,669)
Buildings and improvements	(1,796,420)	(28,950)	-	(1,825,370)
Furniture and equipment	(725,206)	(27,753)	-	(752,959)
Vehicles	<u>(810,697)</u>	<u>(86,168)</u>	-	<u>(896,865)</u>
Total accumulated depreciation	<u>(3,547,625)</u>	<u>(158,238)</u>	-	<u>(3,705,863)</u>
Governmental activities capital assets, net	<u>\$ 14,014,647</u>	<u>\$ 14,928,799</u>	<u>\$ -</u>	<u>\$ 28,943,446</u>

Depreciation expense was charged to governmental functions as follows:

<u>Instruction:</u>	
Regular	\$ 20,765
Special	498
<u>Support services:</u>	
Instructional staff	8,087
Administration	1,972
Fiscal	1,549
Operations and maintenance	16,418
Pupil transportation	84,315
Extracurricular activities	22,965
Food service operations	<u>1,669</u>
Total depreciation expense	<u>\$ 158,238</u>

**NORTHMOR LOCAL SCHOOL DISTRICT
MORROW COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

NOTE 9 - LONG-TERM OBLIGATIONS

- A. During fiscal year 2011, the following changes occurred in governmental activities long-term obligations:

Governmental activities:	Balance Outstanding June 30, 2010			Balance Outstanding June 30, 2011		Amounts Due in One Year
	<u> </u>	<u>Additions</u>	<u>Reductions</u>	<u> </u>	<u> </u>	<u> </u>
General obligation bonds	\$ 14,474,417	\$ 24,936	\$ (235,000)	\$ 14,264,353		\$ 250,000
Compensated absences	<u>873,267</u>	<u>202,867</u>	<u>(176,620)</u>	<u>899,514</u>		<u>67,355</u>
Total governmental activities	<u>\$ 15,347,684</u>	<u>\$ 227,803</u>	<u>\$ (411,620)</u>	15,163,867		<u>\$ 317,355</u>
Add: Unamortized premium on bonds				<u>366,503</u>		
Total				<u>\$ 15,530,370</u>		

- B. General Obligation Bonds - Series 2008: On August, 14, 2008, the District issued Series 2008 construction bonds to finance building construction and improvements in accordance with the terms of a facilities grant from the Ohio Schools Facilities Commission (OSFC). The total project (hereafter "Construction Project") encompasses the construction of one new facility to house K-12 and to demolish Iberia and Johnsville elementary schools as well as Northmor Jr/Sr High School. The Series 2008 Construction bonds consist of current interest serial bonds in the amount of \$4,395,000, current interest term bonds in the amount of \$9,780,000 and capital appreciation bonds in the amount of \$325,000. The current interest serial bonds bear interest rates ranging from 3.25% to 5% and mature on November 1, 2023. The current interest term bonds bear interest rates ranging from 4.75% to 5% and mature on November 1, 2036. The capital appreciation bonds have effective interest rates ranging from 4.76% to 5.00% and mature on November 1, 2019, 2020 and 2021. The accreted value at maturity for the capital appreciation bonds is \$1,530,000. Total accreted interest of \$79,353 has been included in the statement of net assets at June 30, 2011. At June 30, 2011, the District had \$8,587,418 of unspent bond proceeds remaining on the bond issue.

These bonds represent the amount of the Construction Project that the District itself was required to finance, in accordance with the terms of the facilities grant from OSFC. OSFC will make quarterly disbursements to the District as the project is completed. As of June 30, 2011, the total cost of the Construction Project is \$33,346,611, of which OSFC will pay \$20,411,919.

These bonds are general obligations of the District for which the full faith and credit of the District is pledged for repayment. Accordingly, such unmatured obligations of the District are accounted for in the statement of net assets. Payments of principal and interest relating to this bond are recorded as an expenditure in the debt service fund.

Interest payments on the current interest bonds are due on May 1 and November 1 each year. The final maturity stated in the issue is during fiscal year 2037.

**NORTHMOR LOCAL SCHOOL DISTRICT
MORROW COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

NOTE 9 - LONG-TERM OBLIGATIONS - (Continued)

The following is a schedule of activity for fiscal year 2011 on the 2008 series bonds:

	<u>Balance</u> <u>June 30, 2010</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2011</u>
Current interest bonds -				
2008 Series	\$ 14,095,000	\$ -	\$ (235,000)	\$ 13,860,000
Capital appreciation bonds -				
2008 Series	325,000	-	-	325,000
Capital appreciation bonds -				
Accreted Interest	<u>54,417</u>	<u>24,936</u>	<u>-</u>	<u>79,353</u>
Total	<u>\$ 14,474,417</u>	<u>\$ 24,936</u>	<u>\$ (235,000)</u>	<u>\$ 14,264,353</u>

The following is a summary of the future debt service requirements to maturity for the 2008 series bonds:

<u>Fiscal Year</u> <u>Ending June 30,</u>	<u>Current Interest Bonds</u>			<u>Capital Appreciation Bonds</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 250,000	\$ 642,963	\$ 892,963	\$ -	\$ -	\$ -
2013	305,000	633,563	938,563	-	-	-
2014	330,000	622,450	952,450	-	-	-
2015	355,000	610,018	965,018	-	-	-
2016	405,000	595,768	1,000,768	-	-	-
2017 - 2021	1,390,000	1,531,150	2,921,150	230,000	790,000	1,020,000
2022 - 2026	2,190,000	2,446,549	4,636,549	95,000	415,000	510,000
2027 - 2031	3,365,000	1,747,027	5,112,027	-	-	-
2032 - 2036	4,280,000	803,000	5,083,000	-	-	-
2037	990,000	24,750	1,014,750	-	-	-
Total	<u>\$ 13,860,000</u>	<u>\$ 9,657,238</u>	<u>\$ 23,517,238</u>	<u>\$ 325,000</u>	<u>\$ 1,205,000</u>	<u>\$ 1,530,000</u>

C. Legal Debt Margin

The Ohio Revised Code provides that voted net general obligation debt of the District shall never exceed 9% of the total assessed valuation of the District. The code further provides that unvoted indebtedness shall not exceed 1/10 of 1% of the property valuation of the District. The code additionally states that unvoted indebtedness related to energy conservation debt shall not exceed 9/10 of 1% of the property valuation of the District. The assessed valuation used in determining the District's legal debt margin has been modified by House Bill 530 which became effective March 30, 2006. In accordance with House Bill 530, the assessed valuation used in the District's legal debt margin calculation excluded tangible personal property used in business, telephone or telegraph property, interexchange telecommunications company property and personal property owned or leased by a railroad company and used in railroad operations.

**NORTHMOR LOCAL SCHOOL DISTRICT
MORROW COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

NOTE 9 - LONG-TERM OBLIGATIONS - (Continued)

The Ohio Revised Code further provides that when a Board of Education declares a resolution that the student population is not adequately served by existing facilities, and that insufficient capacity exists within the 9% limit to finance additional facilities, the State Department of Education may declare that district a "special needs" district. This permits the incurrence of additional debt based upon projected 5-year growth of the school district's assessed valuation. The District was determined to be a "special needs" district by the Board passing a resolution on July 19, 2007.

NOTE 10 - SCHOOL DISTRICT INCOME TAX

The voters of the District passed a 1% school district income tax effective June 2, 1992. This tax is effective indefinitely. School district income tax revenue received by the general fund during fiscal year 2011 was \$1,357,555.

NOTE 11 - COMPENSATED ABSENCES

The criteria for determining vested vacation and sick leave components are 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. Administrators who are contracted to work 260 days in a year are given five to twenty-five days of vacation per year by contract. Administrators who earn vacation are paid for accumulated unused vacation time upon termination of employment.

Administrators, teachers, and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to 250 days. Upon retirement, payment is made for 30% of the total sick leave accumulation up to a maximum of seventy-five days.

Compensated absences will be paid from the fund from which the employee is paid, which primarily are the general fund and food service fund (a nonmajor governmental fund).

NOTE 12 - RISK MANAGEMENT

A. Comprehensive

The District is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees and natural disasters. During fiscal year 2011, the District retained property insurance coverage, underwritten by Ohio Casualty, in the blanket amount of \$22,428,169 with 100% coinsurance, replacement cost and agreed upon endorsement and a \$2,500 deductible. Boiler and machinery coverage is provided within the property coverage and limits. The District also has inland marine floaters in the amount of \$20,000 with a \$500 deductible for coverage of audio visual equipment, musical instruments and band uniforms.

Vehicles are covered by Ohio Casualty and hold a \$500 deductible for claims related to collision and a comprehensive deductible of \$250. Automobile liability has a \$1,000,000 combined single limit of liability.

Nationwide Insurance Companies also provide general liability coverage with a \$1,000,000 single occurrence limit, an aggregate limit of \$3,000,000 with no deductible.

**NORTHMOR LOCAL SCHOOL DISTRICT
MORROW COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

NOTE 12 - RISK MANAGEMENT - (Continued)

A. Comprehensive (Continued)

Settled claims have not exceeded this commercial coverage in any of the past three years. There has not been a significant reduction in insurance from the prior year.

B. Employee Group Life, Medical, Dental, and Vision Insurance

The District provides life insurance and accidental death and dismemberment insurance to all regular contracted employees in the amount of \$35,000 for certified and classified employees.

The District has elected to provide a comprehensive medical benefits package to the employees through Medical Mutual of Ohio. This package provides a comprehensive medical plan with a \$100 single and \$200 family deductible in network and \$200 single and \$400 family non-network. Included in the plan is a prescription drug card with a \$10/25/40 per prescription deductible for PCS drugs and a \$20/50/80 per prescription deductible for mail-order 3 month supply of drugs. The total monthly premium for the medical and prescription drug plan is \$500.90 for single coverage and \$1,262.18 for family coverage which is paid out of the same fund that pays the salary for the employee. The employee pays 15% of the medical premium, while the District pays the remaining 85% of the medical premium and 100% of the Dental/Vision prescription drug premiums.

The District's amounts are capped by negotiated union contracts and cannot be increased except through negotiations.

The District provides dental coverage for its employees with a \$25 deductible per person, or \$50 deductible for a family. The total monthly premium for this dental coverage is \$35.06 for single and \$90.13 for family coverage.

The District also provides vision coverage for its employees with no deductible coverage. The total monthly premium is \$17.69 for single or family coverage.

The above employee portions of premiums for medical, dental and vision insurance are for full-time employees.

C. Workers' Compensation Plan

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

The intent of the GRP is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the state based on the rate for the GRP rather than its individual rate.

**NORTHMOR LOCAL SCHOOL DISTRICT
MORROW COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

NOTE 12 - RISK MANAGEMENT - (Continued)

C. Workers' Compensation Plan (Continued)

Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm Comp Management provides administrative, cost control and actuarial services to the GRP. Each year, the District pays an enrollment fee to the GRP to cover the costs of administering the program.

D. Employee Dishonesty Bonds

The District also carries a blanket employee dishonesty bond in the amount of \$10,000 per loss (\$50,000 for the treasurer) and a \$250 deductible with a faithful performance endorsement.

NOTE 13 - PENSION PLANS

A. School Employees Retirement System

Plan Description - The District contributes to the School Employees Retirement System (SERS), a cost-sharing, multiple-employer defined benefit pension plan. SERS provides retirement, disability, survivor benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746. It is also posted on the SERS' Ohio website, www.ohsers.org, under "Media/Financial Reports".

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14 percent of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2011, 11.77 percent and 0.04 percent of annual covered salary was the portion used to fund pension obligations and death benefits, respectively. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The District's required contributions for pension obligations and death benefits to SERS for the fiscal years ended June 30, 2011, 2010 and 2009 were \$151,370, \$157,644 and \$111,908, respectively; 47.47 percent has been contributed for fiscal year 2011 and 100 percent for fiscal years 2010 and 2009.

B. State Teachers Retirement System of Ohio

Plan Description - The District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement plan. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio website at www.strsoh.org, under "Publications".

**NORTHMOR LOCAL SCHOOL DISTRICT
MORROW COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

NOTE 13 - PENSION PLANS - (Continued)

B. State Teachers Retirement System of Ohio (Continued)

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on a member's lifetime contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. Benefits are established by Chapter 3307 of the Ohio Revised Code.

A DB or Combined Plan member with five or more years credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member of the DC Plan dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Funding Policy - For fiscal year 2011, plan members were required to contribute 10 percent of their annual covered salaries. The District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The District's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2011, 2010 and 2009 were \$685,083, \$665,873 and \$646,231, respectively; 83.30 percent has been contributed for fiscal year 2011 and 100 percent for fiscal years 2010 and 2009. Contributions to the DC and Combined Plans for fiscal year 2011 were \$13,588 made by the District and \$9,706 made by the plan members.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the SERS/STRS Ohio have an option to choose Social Security or the SERS/STRS Ohio. As of June 30, 2011, certain members of the Board of Education have elected Social Security. The District's liability is 6.2 percent of wages paid.

**NORTHMOR LOCAL SCHOOL DISTRICT
MORROW COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

NOTE 14 - POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

Plan Description - The District participates in two cost-sharing, multiple employer postemployment benefit plans administered by the School Employees Retirement System (SERS) for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's, Medicare Advantage, and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Section 3309.69 of the Ohio Revised Code. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B premium for calendar year 2011 was \$96.40 and SERS' reimbursement to retirees was \$45.50. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746. It is also posted on the SERS' Ohio website, www.ohsers.org, under "Media/Financial Reports".

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). For 2011, 1.43 percent of covered payroll was allocated to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statutes provide that no employer shall pay a health care surcharge greater than 2.0 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the statewide SERS-covered payroll for the health care surcharge. For fiscal year 2011, the actuarially determined amount was \$35,800.

Active members do not contribute to the postemployment benefit plans. The Retirement Board establishes the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending on the plan selected, qualified years of service, Medicare eligibility and retirement status.

The District's contributions for health care (including surcharge) for the fiscal years ended June 30, 2011, 2010 and 2009 were \$44,382, \$30,296 and \$76,717, respectively; 47.47 percent has been contributed for fiscal year 2011 and 100 percent for fiscal years 2010 and 2009.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2011, this actuarially required allocation was 0.76 percent of covered payroll. The District's contributions for Medicare Part B for the fiscal years ended June 30, 2011, 2010, and 2009 were \$9,741, \$9,375 and \$9,233, respectively; 47.47 percent has been contributed for fiscal year 2011 and 100 percent for fiscal years 2010 and 2009.

**NORTHMOR LOCAL SCHOOL DISTRICT
MORROW COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

NOTE 14 - POSTEMPLOYMENT BENEFITS - (Continued)

B. State Teachers Retirement System of Ohio

Plan Description - The District contributes to the cost sharing, multiple employer defined benefit Health Plan (the "Plan") administered by the State Teachers Retirement System of Ohio (STRS Ohio) for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS Ohio. Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. The Plan is included in the report of STRS Ohio which may be obtained by visiting www.strsoh.org, under "Publications" or by calling (888) 227-7877.

Funding Policy - Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2011, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The District's contributions for health care for the fiscal years ended June 30, 2011, 2010 and 2009 were \$52,699, \$51,221 and \$49,710, respectively; 83.30 percent has been contributed for fiscal year 2011 and 100 percent for fiscal years 2010 and 2009.

NOTE 15 - BUDGETARY BASIS OF ACCOUNTING

While 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 and disbursements.

The statement of revenue, expenditures and changes in fund balance - budget and actual (non-GAAP budgetary basis) 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 the GAAP basis are that:

- (a) Revenues and other financing sources are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- (b) Expenditures and other financing uses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);
- (c) In order to determine compliance with Ohio law, and to reserve that portion of the applicable appropriation, total outstanding encumbrances (budget basis) are recorded as the equivalent of an expenditure, as opposed to assigned or committed fund balance for that portion of outstanding encumbrances not already recognized as an account payable (GAAP basis);
- (d) Investments are reported at fair value (GAAP basis) rather than cost (budget basis); and
- (e) Some funds are included in the general fund (GAAP basis), but have separate legally adopted budgets (budget basis).

**NORTHMOR LOCAL SCHOOL DISTRICT
MORROW COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

NOTE 15 - BUDGETARY BASIS OF ACCOUNTING - (Continued)

The adjustments necessary to convert the results of operations for the year on the budget basis to the GAAP basis for the general fund is as follows:

	<u>General fund</u>
Budget basis	\$ (319,691)
Net adjustment for revenue accruals	64,150
Net adjustment for expenditure accruals	130,431
Funds budgeted elsewhere	(3,051)
Adjustment for encumbrances	<u>75,324</u>
GAAP basis	<u>\$ (52,837)</u>

Certain funds that are legally budgeted in separate special revenue funds are considered part of the general fund on a GAAP basis. This includes the uniform school supplies, unclaimed monies, and the public school support fund.

NOTE 16 - CONTINGENCIES

A. Grants

The District receives significant financial assistance from numerous federal, State and local agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the District. However, in the opinion of management, any such disallowed claims will not have a material effect on the financial position of the District.

B. Litigation

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

NOTE 17 - SET-ASIDES

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

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

**NORTHMOR LOCAL SCHOOL DISTRICT
MORROW COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

NOTE 17 - SET-ASIDES (Continued)

	<u>Textbooks</u>	<u>Capital Improvements</u>
Set-aside balance June 30, 2010	\$ 137,929	\$ -
Current year set-aside requirement	174,286	174,286
Contributions in excess of the current fiscal year set-aside requirement	-	-
Current year qualifying expenditures	(27,878)	(363,483)
Excess qualified expenditures from prior years	-	-
Current year offsets	-	(67,519)
Waiver granted by ODE	-	-
Prior year offset from bond proceeds	<u>-</u>	<u>-</u>
Total	<u>\$ 284,337</u>	<u>\$ (256,716)</u>
Balance carried forward to fiscal year 2012	<u>\$ -</u>	<u>\$ -</u>
Set-aside balance June 30, 2011	<u>\$ 284,337</u>	<u>\$ -</u>

Effective July 1, 2011, the textbook set-aside is no longer required and has been removed from existing law. The amount shown as restricted assets is limited to the cash balance of the general fund at June 30, 2011, which was \$284,337. Although the District had qualifying disbursements and offsets during the fiscal year that reduced the set-aside amount to below zero for the capital improvements set-aside, this amount may not be used to reduce the set-aside requirement for future fiscal years. The negative balance is therefore not presented as being carried forward to future fiscal years.

NOTE 18 - OTHER COMMITMENTS

The District utilizes encumbrance accounting as part of its budgetary controls. Encumbrances outstanding at year end may be reported as part of restricted, committed, or assigned classifications of fund balance. At year end, the District's commitments for encumbrances in the governmental funds were as follows:

	Year-End
<u>Fund</u>	<u>Encumbrances</u>
General fund	\$ 52,643
Classroom facilities	3,902,552
Building	525,616
Other governmental	<u>14,395</u>
Total	<u>\$ 4,495,206</u>

**NORTHMOR LOCAL SCHOOL DISTRICT
MORROW COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

NOTE 19 – MANAGEMENT PLAN

The Northmor Local School District's General Fund balance has been declining due to the economy and the loss of income tax. The District lost approximately \$300,000 in income tax revenue from fiscal year 2009 to 2010. We have also seen a loss in foundation payments. For fiscal year 2012, we are projecting a decline in foundation payments, both restricted and non-restricted of \$500,000. A large portion of this deficit is due to the end of the Stimulus funding program. We have been contacted by the Ohio Department of Education (ODE) and have been requested to prepare a general strategy plan to correct the deficit. The plan was submitted to ODE on January 18, 2011 under the guidance of the Board of Education. Below is a summary of the actions taken in the general strategy plan.

- Reduction in Force – One full-time teaching position, one part-time teaching position, and one classified position.
- Reductions – One administrative position reduced from full-time with benefits to part-time without benefits.
- Retirements – One teaching position has retired and not replaced.
- Due to the OSFC project we sold the following: land, modular classrooms, and loose furnishings in three buildings.
- Effective July 1, 2011, we changed the employee health insurance from a traditional plan to a health reimbursement account.
- Settled three year contracts with both unions, with no salary increase for fiscal year 2012. For fiscal years 2013 and 2014, there will only be salary increases if the general fund balances at June 30th are at \$400,000 and \$600,000, respectively.

Other items for consideration in the future:

- Retirements – Not being replaced and/or the retire-rehire option.
- Due to the OSFC project, maintenance for the new facility will be charged to the Classroom Facilities Maintenance Fund instead of the General fund.
- Reduction in force.

The Board of Education is updated monthly on the District's financial situation and the five year forecast will be updated in May 2012. The Board of Education will re-evaluate the general strategy plan at that time and take any additional actions needed. The District has adopted a balanced budget for fiscal year 2012.

NORTHMOR LOCAL SCHOOL DISTRICT
MORROW COUNTY

FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2011

FEDERAL GRANTOR <i>Pass Through Grantor</i> Program Title	Federal CFDA Number	Receipts	Disbursements
<u>U.S. DEPARTMENT OF AGRICULTURE</u>			
<i>Passed Through the Ohio Department of Education</i>			
Child Nutrition Cluster:			
Non-Cash Assistance (Food Distribution):			
National School Lunch Program	10.555	\$ 29,283	\$ 29,283
Cash Assistance			
National School Lunch Program	10.555	169,908	169,908
Total Child Nutrition Cluster		<u>199,192</u>	<u>199,192</u>
Total U.S. Department of Agriculture		<u>199,192</u>	<u>199,192</u>
<u>U.S. DEPARTMENT OF EDUCATION</u>			
<i>Passed Through the Ohio Department of Education</i>			
Special Education Cluster:			
Special Education - Grants to States	84.027	279,823	205,785
ARRA - Special Education Grants to States, Recovery Act	84.391	<u>41,282</u>	<u>78,859</u>
Total Special Education Cluster		321,106	284,644
Title I, Part A Cluster:			
Title I Grants to Local Educational Agencies	84.010	318,767	293,156
ARRA - Title I Grants to Local Educational Agencies, Recovery Act	84.389	<u>32,128</u>	<u>7,822</u>
Total Title I, Part A Cluster		350,895	300,978
Safe and Drug-Free Schools and Communities State Grants	84.186	1,968	-
Twenty-First Century Community Learning Centers	84.287	243,565	240,586
Educational Technology State Grants	84.318	101	2,247
Improving Teacher Quality State Grants	84.367	67,425	39,291
ARRA- State Fiscal Stabilization Fund (SFSF) - Race to the Top Incentive Grants, Recovery Act	84.395	-	867
Education Jobs Fund	84.410	222,656	213,545
ARRA - State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act	84.394	<u>403,228</u>	<u>356,270</u>
Total U.S. Department of Education		<u>1,610,942</u>	<u>1,438,428</u>
TOTAL FEDERAL AWARDS RECEIPTS AND EXPENDITURES		<u>\$ 1,810,134</u>	<u>\$ 1,637,620</u>

The accompanying notes are an integral part of this schedule.

**NORTHMOR LOCAL SCHOOL DISTRICT
MORROW COUNTY**

**NOTES TO THE FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FISCAL YEAR ENDED JUNE 30, 2011**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Federal Awards Receipts and Expenditures Schedule (the Schedule) reports Northmor Local School District's (the District's) federal award programs' receipts and disbursements. The schedule has been prepared on the cash basis of accounting.

NOTE B - CHILD NUTRITION CLUSTER

The District commingles cash receipts from the U.S. Department of Agriculture with similar State grants. When reporting expenditures on this Schedule, the District assumes it expends federal monies first.

NOTE C – FOOD DONATION PROGRAM

The District reports commodities consumed on the Schedule at the fair value. The District allocated donated food commodities to the respective program that benefitted from the use of those donated food commodities.



Dave Yost • Auditor of State

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

Northmor Local School District
Morrow County
5247 County Road 29
Galion, Ohio 44833

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Northmor Local School District, Morrow County, Ohio, (the District) as of and for the year ended June 30, 2011, which collectively comprise the District's basic financial statements and have issued our report thereon dated March 30, 2012, wherein we noted the District adopted the provisions of Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. 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 as a basis for designing our audit procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of opining on the effectiveness of the District's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. Therefore, we cannot assure that we have identified all deficiencies, significant deficiencies or material weaknesses. However, as described in the accompanying schedule of findings we identified a certain deficiency in internal control over financial reporting, that we consider a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and timely corrected. We consider finding 2011-001 described in the accompanying schedule of findings to be a material weakness.

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*.

We did note certain matters not requiring inclusion in this report that we reported to the District's management in a separate letter dated March 30, 2012.

The District's response to the finding identified in our audit is described in the accompanying schedule of findings. We did not audit the District's response and, accordingly, we express no opinion on it.

We intend this report solely for the information and use of management, the Board of Education, federal awarding agencies, pass-through entities, and others within the District. We intend it for no one other than these specified parties.



Dave Yost
Auditor of State

March 30, 2012



Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

Northmor Local School District
Morrow County
5247 County Road 29
Galion, Ohio 44833

To the Board of Education:

Compliance

We have audited the compliance of Northmor Local School District, Morrow County, Ohio, (the District) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that could directly and materially affect each of the Northmor Local School District's major federal programs for the year ended June 30, 2011. The *summary of auditor's results* section of the accompanying schedule of findings identifies the District's major federal programs. The District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to opine on the District's compliance based on our audit.

Our compliance audit followed auditing standards generally accepted in the United States of America; the standards applicable to financial audits included in the Comptroller General of the United States' *Government Auditing Standards*; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. These standards and OMB Circular A-133 require that we plan and perform the audit to reasonably assure whether noncompliance occurred with the compliance requirements referred to above that could directly and materially affect a major federal program. An audit includes examining, on a test basis, evidence about the District's compliance with these requirements and performing other procedures we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the District's compliance with these requirements.

In our opinion, Northmor Local School District, Morrow County, Ohio, complied, in all material respects, with the requirements referred to above that could directly and materially affect each of its major federal programs for the year ended June 30, 2011.

Internal Control Over Compliance

The District's management is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could directly and materially affect a major federal program, to determine our auditing procedures for the purpose of opining on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of opining on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program compliance requirement. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a federal program compliance requirement will not be prevented, or timely detected and corrected.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

We noted a certain matter involving federal compliance not requiring inclusion in this report, that we reported to the District's management in a separate letter dated March 30, 2012.

We intend this report solely for the information and use management, the Board of Education, others within the District, federal awarding agencies, and pass-through entities. It is not intended for anyone other than these specified parties.



Dave Yost
Auditor of State

March 30, 2012

**NORTHMOR LOCAL SCHOOL DISTRICT
MORROW COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2011**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	Yes
(d)(1)(ii)	Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
(d)(1)(iv)	Were there any material internal control weaknesses reported for major federal programs?	No
(d)(1)(iv)	Were there any significant deficiencies in internal control reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under § .510(a)?	No
(d)(1)(vii)	Major Programs (list):	CFDA #84.394 – ARRA - State Fiscal Stabilization Fund (SFSF) – Education State Grants, Recovery Act <u>Special Education Cluster</u> CFDA #84.027 – Special Education Grants to States CFDA #84.391 – ARRA – Special Education Grants to States, Recovery Act <u>Title I, Part A Cluster</u> CFDA # - Title I Grants to Local Educational Agencies CFDA #84.389 – ARRA – Title I Grants to Local Educational Agencies, Recovery Act
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	No

**NORTHMOR LOCAL SCHOOL DISTRICT
MORROW COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2011
(Continued)**

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

Finding Number	2011-001
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Material Weakness – Financial Reporting

Sound financial reporting is the responsibility of the Treasurer and the Board and is essential to ensure the information provided to the readers of the financial statements is complete and accurate.

An audit adjustment of \$875,960 was made to record contracts payable and capital assets in Governmental Activities. This audit adjustment was also made to record contracts payable and facilities acquisition and construction expenditures in the Classroom Facilities fund and Building fund in the amounts of \$852,182 and \$23,778, respectively.

The District made these adjustments to their financial statements and accounting records.

The adjustment identified above should be reviewed by the Treasurer and Board to ensure that similar errors are not reported on financial statements in subsequent years. In addition, the District should develop procedures for the periodic review of the activity posted to the accounting records, as well as, for the review of the financial statement information to ensure it accurately reflects the District's activity.

Officials' Response:

The District reviews the financial report and workpapers prepared by our independent public accounting firm. The above adjustment was due to invoices received after our sixty day available period for construction costs that were not included in the accounts/contracts payable report generated by our accounting software. The District will implement additional procedures to ensure that all accounts and contracts payable liabilities are included in the financial statements.

3. FINDINGS FOR FEDERAL AWARDS

None

**NORTHMOR LOCAL SCHOOL DISTRICT
MORROW COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .315 (b)
JUNE 30, 2011**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain
2010-001	Material Weakness – Financial Reporting	No	Not Corrected. Similar finding being repeated in current audit as Finding #2011-001.
2010-002	Material Weakness – Monthly Cash Reconciliations	No	Partially Corrected. Similar finding is being repeated in current audit management letter.
2010-003	Significant Deficiency – Capital Asset Management	Yes	
2010-004	Significant Deficiency – Expenditure Authorization	Yes	
2010-005	Material Non-Compliance/Material Weakness – Continuing Disclosure	No	Partially Corrected. Finding is being repeated in current audit management letter.
2010-006	Questioned Costs/Material Weakness – Period of Availability – Title VI-B Grant	Yes	
2010-007	Questioned Costs/Material Weakness – Period of Availability – Title I Grant	Yes	
2010-008	Material Non-Compliance/Material Weakness – Period of Availability – State Fiscal Stabilization Fund Grant	Yes	
2010-009	Questioned Costs/Material Weakness – Allowable Costs/Cost Principles – Title VI-B Grant	Yes	
2010-010	Material Non-Compliance/Material Weakness – Equipment and Real Property Management – Title VI-B Grant	Yes	
2010-011	Material Weakness – Expenditure Authorization – Allowable Costs/Cost Principles, Activities Allowed or Unallowed, and Period of Availability	No	Partially Corrected. Similar finding is being repeated in current audit management letter.

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NORTHMOR LOCAL SCHOOL DISTRICT

MORROW 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
APRIL 17, 2012**