

NORTHERN LOCAL SCHOOL DISTRICT

PERRY COUNTY

SINGLE AUDIT

JULY 1, 2005 – JUNE 30, 2006



Mary Taylor, CPA
Auditor of State

January 9, 2007

The attached audit report was completed and prepared for release prior to the commencement of my term of office on January 8, 2007. Thus, I am certifying this audit report for release under the signature of my predecessor.

Mary Taylor

MARY TAYLOR, CPA
Auditor of State

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**Auditor of State
Betty Montgomery**

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

We have reviewed the *Independent Auditors' Report* of the Northern Local School District, Perry County, prepared by Wilson, Shannon & Snow, Inc., for the audit period July 1, 2005 through June 30, 2006. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

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

BETTY MONTGOMERY
Auditor of State

December 27, 2006

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**NORTHERN LOCAL SCHOOL DISTRICT
PERRY COUNTY**

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**NORTHERN LOCAL SCHOOL DISTRICT
PERRY COUNTY**

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

Independent Auditors' Report

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

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

Ohio Administrative Code Section 117-2-03(B) requires the School District to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America. However, as discussed in Note 2, the accompanying financial statements and notes follow the modified cash accounting basis. This is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The accompanying financial statements and notes omit assets, liabilities, fund equities, and disclosures that, while material, we cannot determine at this time.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash basis financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Northern Local School District, Perry County, Ohio, as of June 30, 2006, and the respective changes in the modified cash basis financial position and the respective budgetary comparison for the General Fund thereof for the fiscal year then ended in conformity with the accounting basis Note 2 describes.

Wilson, Shannon & Snow, Inc.

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

Northern Local School District
Independent Auditors' Report

In accordance with *Government Auditing Standards*, we have also issued our report dated November 2, 2006, on our consideration of the School 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. That report described the scope of our testing of internal control over financial reporting and compliance and the results of that testing. It does not opine on the internal control over financial reporting or on compliance. 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.

Management's discussion and analysis is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, consisting primarily of inquiries of management regarding the method of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

Wilson, Shuman & Snow, Inc.

Newark, Ohio
November 2, 2006

Northern Local School District, Ohio

Management's Discussion and Analysis For the Fiscal Year Ended June 30, 2006

As management of the Northern Local School District (the School District), we offer readers of the School District's financial statements this narrative overview and analysis of the financial activities of the School District for the fiscal year ended June 30, 2006. We encourage readers to consider the information presented here in conjunction with the financial statements and the notes to the financial statements.

Financial Highlights

Key financial highlights for the fiscal year 2006 are as follows:

- Net assets of governmental activities increased \$362,225.
- General cash receipts accounted for \$16,953,376 in cash receipts or 79 percent of all cash receipts. Program specific cash receipts in the form of charges for services, operating grants and contributions accounted for \$4,496,958 or 21 percent of total receipts of \$21,450,334.
- The School District had \$21,088,109 in cash disbursements related to governmental activities; only \$4,496,958 of these cash disbursements was offset by program specific charges for services, operating grants and contributions. General cash receipts of \$16,953,376 were needed to provide for these programs.
- The School District has three major funds; the general fund, permanent improvement fund, and the building fund. The general fund had \$17,650,562 in cash receipts and other financing sources and \$17,187,603 in cash disbursements. The general fund's balance increased \$462,959. The permanent improvement fund had \$666,940 in cash receipts and \$724,213 in cash disbursements. The permanent improvement's fund balance decreased by \$57,273. The building fund had \$1,903 in cash receipts and \$306,748 in cash disbursements. The building's fund balance decreased by \$304,845. The significant decreases in both the permanent improvement fund and the building fund are a result of the School District's participation in the Ohio School Facilities construction program. The School District is in the closeout phase of a \$46,000,000 project which resulted in the construction of a new high school, two new elementary buildings, and various renovations to existing buildings.

Using this Annual Financial Report

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

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

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

Reporting the School District as a Whole

Statement of Net Assets and the Statement of Activities – Modified Cash Basis

While these documents contain information about the large number of funds used by the School District to provide programs and activities for students, the view of the School District as a whole looks at all financial transactions and asks the question, “How did we do financially during fiscal year 2006?” The Statement of Net Assets and the Statement of Activities answer this question. These statements are presented on the modified cash basis of accounting. This basis of accounting only takes into account the receipts that were received and the disbursements that were paid.

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

In the Statement of Net Assets and the Statement of Activities, the School District’s activities are all reported as Governmental described by the following activity:

- Governmental Activities – All of the School District’s programs and services are reported here including instruction, support services, operation of non-instructional services, bond service operations, and extracurricular activities.

Reporting the School District’s Most Significant Funds

Fund Financial Statements

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

Governmental Funds Most of the School District’s activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at fiscal year end available for spending in future periods. These funds are reported using the modified cash basis of accounting. The governmental fund statements provide a detailed short-term view of the School District’s general governmental operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs.

Proprietary Fund The School District maintains an internal service fund that is used to account for enterprise – like operations that provide services, on a user fee basis, primarily or exclusively to departmental customers within the governmental entity itself, rather than to external customers. The School District uses an internal service fund to account for its risk management related to medical/surgical and dental self-insurance. Because these services predominately benefit governmental activities they have been included within the governmental activities in the government –wide financial statements.

Northern Local School District, Ohio

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006*

Fiduciary Funds These funds are used to account for resources held for the benefit of parties outside the School District. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the School District's own programs. The School District has student activity agency funds and private purpose trust funds.

The School District as a Whole

Table 1 provided on the next page shows the changes in net assets for the fiscal year ended June 30, 2006 in comparison to June 30, 2005.

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Home of the Generals

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

Table 1
Changes in Net Assets

	Governmental Activities 2006	Governmental Activities 2005
	<u>2006</u>	<u>2005</u>
Cash Receipts:		
Program Cash Receipts:		
Charges for Services	\$ 1,249,338	\$ 1,282,202
Operating Grants and Contributions	3,247,620	3,211,641
Total Program Receipts	<u>4,496,958</u>	<u>4,493,843</u>
General Cash Receipts:		
Property Taxes	5,960,897	4,645,223
Grants and Entitlements	10,684,053	10,486,314
Investment Earnings	138,491	64,798
Sale of Capital Assets	7,371	25,466
Reimbursements	-	3,500
Miscellaneous	162,564	203,362
Total General Cash Receipts	<u>16,953,376</u>	<u>15,428,663</u>
Total Cash Receipts	<u>21,450,334</u>	<u>19,922,506</u>
Program Cash Disbursements:		
Instruction:		
Regular	7,454,342	7,116,867
Special	1,298,518	1,393,757
Vocational	271,057	254,357
Other	681,219	636,707
Support Services:		
Pupils	1,251,169	1,212,377
Instructional Staff	986,102	1,016,961
Board of Education	446,544	329,468
Administration	1,412,182	1,340,808
Fiscal	597,043	461,202
Business	22,307	21,622
Operation and Maintenance of Plant	2,305,135	1,986,664
Pupil Transportation	1,420,817	1,452,419
Central	39,743	97,182
Operation of Non-Instructional Services	-	93,763
Operation of Food Service	763,540	657,132
Community Services	144,967	-
Extracurricular Activities	598,589	572,105
Capital Outlay	529,785	7,642,395
Debt Service:		
Principal Retirement	535,000	525,000
Interest and Fiscal Charges	330,050	353,140
Total Program Cash Disbursements	<u>21,088,109</u>	<u>27,163,926</u>
Change in Net Assets	362,225	(7,241,420)
Net Assets Beginning of Year	<u>4,854,378</u>	<u>12,095,798</u>
Net Assets End of Year	<u>\$ 5,216,603</u>	<u>\$ 4,854,378</u>

Northern Local School District, Ohio

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006*

The unique nature of property taxes in Ohio creates the need to routinely seek voter approval for operating funds. As the result of legislation enacted in 1976, the overall revenue generated by the levy will not increase solely as a result of inflation. As an example, a homeowner with a home valued at \$100,000 and taxed at 1.0 mill would pay \$35 annually in taxes. If three years later, the home were reappraised and increased to \$200,000 (and this inflationary increase in value is comparable to other property owners) the effective tax rate would be .5 mills and the owner would still pay \$35.

Our School District, which is dependent on property taxes, is hampered by a lack of revenue growth and must periodically return to the voters to maintain a constant level of service. Property taxes made up approximately 28 percent of receipts for governmental activities for the School District in fiscal year 2006.

The major program cash disbursements for governmental activities are for instruction, which accounts for 46 percent of all governmental cash disbursements, excluding capital outlay of \$9,705,136. Other programs which support the instruction process, including pupils, instructional staff, and pupil transportation account for approximately 17 percent of total government cash disbursements, exclusive of capital outlay. Maintenance of the School District's facilities also represents a significant cash disbursement, 11 percent. Capital outlay represents less than 3 percent of the total cash disbursements as the School District is in the close-out phase of the Ohio School Facilities Construction Project.

The Statement of Activities shows the cost of program services and the charges for services and grants, contributions offsetting those services. Table 2 provided on the following page shows the total cost of services and the net cost of services for governmental activities for both the years ended June 30, 2006 and the subsequent year, June 30, 2005. That is, it identifies the cost of those services supported by tax revenue and unrestricted state entitlements.

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Home of the Generals

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

Table 2
 Governmental Activities

	Total Cost of Services 2006	Net Cost of Services 2006	Total Cost of Services 2005	Net Cost of Services 2005
Program Disbursements				
Instruction:				
Regular	\$ 7,454,342	\$ 7,193,045	\$ 7,116,867	\$ 6,841,467
Special	1,298,518	98,545	1,393,757	107,134
Vocational	271,057	186,571	254,357	254,082
Other	681,219	681,219	636,707	636,707
Support Services:				
Pupils	1,251,169	457,746	1,212,377	309,217
Instructional Staff	986,102	949,463	1,016,961	981,955
Board of Education	446,544	446,544	329,468	329,468
Administration	1,412,182	1,407,906	1,340,808	1,336,579
Fiscal	597,043	588,625	461,202	459,137
Business	22,307	22,307	21,622	21,622
Operation and Maintenance of Plant	2,305,135	2,305,135	1,986,664	1,986,664
Pupil Transportation	1,420,817	603,831	1,452,419	715,111
Central	39,743	39,743	97,182	86,103
Operation of Non-Instructional Services	-	-	93,763	65,170
Community Services	144,967	68,057	-	-
Operation of Food Service	763,540	(66,033)	657,132	(138,439)
Extracurricular Activities	598,589	213,612	572,105	157,571
Capital Outlay	529,785	529,785	7,642,395	7,642,395
Debt Service:				
Principal Retirement	535,000	535,000	525,000	525,000
Interest and Fiscal Charges	330,050	330,050	353,140	353,140
Total Program Disbursements	<u>\$ 21,088,109</u>	<u>\$ 16,591,151</u>	<u>\$ 27,163,926</u>	<u>\$ 22,670,083</u>

The dependence upon tax receipts and unrestricted state entitlements is apparent as over 84 percent of instruction activities are supported through taxes and other general receipts. However, it should be noted that special instruction activities are largely provided through program cash receipts, by over 92 percent. That is the result of operating grants and contributions restricted for special instruction purposes.

Food service was covered completely by program cash receipts for fiscal year 2006 creating an excess of approximately \$66,033. This is consistent with the prior year and is due to cafeteria sales and state and federal subsidies. Almost 63 percent of extracurricular activities disbursements are covered by program cash receipts. This is a result of athletic fees, ticket sales, and gate receipts.

Northern Local School District, Ohio

Management's Discussion and Analysis For the Fiscal Year Ended June 30, 2006

The School District Funds

The School District's major funds are accounted for using the modified cash basis of accounting. All governmental funds had total cash receipts, including other financing sources, of \$21,450,334 and cash disbursements of \$21,172,004. The excess cash receipts over cash disbursements for the governmental funds totaled \$270,959. The permanent improvement fund and the building fund accounted for the deficit spending during fiscal year 2006 as the School District is in the final phase of the Ohio School Facilities Construction process.

The schedule below indicates the cash fund balances and the total change in fund balances as of June 30, 2006 for all of the major and nonmajor governmental funds.

Table 3
Fund Balance Analysis

	Balance at June 30, 2006	Balance at June 30, 2005	Increase (Decrease)
Major Funds:			
General	\$ 3,883,940	\$ 3,420,981	\$ 462,959
Permanent Improvement	282,648	339,921	(57,273)
Building	1,032	305,877	(304,845)
Other Governmental funds	632,246	454,757	177,489
Total	<u>\$ 4,799,866</u>	<u>\$ 4,521,536</u>	<u>\$ 278,330</u>

General Fund Budgeting Highlights

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

During the course of fiscal year 2006, the School District amended its general fund budget, but not significantly. The School District closely monitors its resources and uses and if necessary, modifies the budgetary documents on a timely basis.

For the general fund, final estimated receipts were \$17,649,941 which was slightly less than the actual cash receipts and other financing sources of \$17,650,562. Final budgetary cash disbursements, excluding other sources, were \$15,324 less than the final appropriation measure of \$17,426,480.

The School District's ending unobligated budgetary cash balance was \$3,660,387.

Debt Administration

Debt

At June 30, 2006, the School District had \$6,544,000 in debt outstanding which is a \$535,000 reduction in debt from the prior period. Due to prudent spending and continuous monitoring of all cash receipts and cash disbursements, our bond rating is AAA.

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

Table 4
 Outstanding Debt at Fiscal Year End

	Principal Outstanding 6/30/2006	Principal Outstanding 6/30/2005
Governmental Activities		
School Improvement Bonds Issued 10/01; Mature 10/23; 3.30% - 5.00%	\$ 5,329,000	\$ 5,549,000
Permanent Improvement Tax Anticipation Notes Issued 11/98; Mature 10/08; 5.32% - 5.65%	1,000,000	1,250,000
School Energy Conservation Bonds Issued 09/99; Mature 10/09; 4.35% - 4.50%	215,000	280,000
Total Governmental Activities Long-Term Liabilities	\$ 6,544,000	\$ 7,079,000

See footnote 10 for more detailed information about the School District's debt.

Economic Factors

The School District's current five-year forecast is projecting deficit spending at the end of fiscal year 2009 with positive ending cash balances for fiscal year 2007 through 2011 of \$5,351,864 \$5,803,234, \$5,888,600, \$5,426,245, and \$4,300,072, respectively.

To achieve the aforementioned projected cash balances, the Board of Education and administration of the School District must continue to maintain careful financial planning and prudent fiscal management in order to preserve the financial stability of the School District.

The School District is currently in the closeout phase of an approximate \$46,000,000 project with the Ohio School Facilities Commission. The project included the construction of a new high school, two new elementary buildings, and addition and renovation to the current middle/high school into a middle school.

Contacting the School District's Financial Management

This financial report is designed to provide our citizen's, taxpayers, and investors and creditors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have any questions about this report or need additional financial information contact Elizabeth Arnold, Treasurer at Northern Local School District, 8700 Sheridan Drive, Thornville, Ohio 43076. Or, E-mail the Treasurer at No_Larnold@seovec.org.

Northern Local School District
Statement of Net Assets - Modified Cash Basis
June 30, 2006

	<u>Governmental Activities</u>
Assets	
Equity in Pooled Cash and Investments	\$ 5,157,411
Restricted Cash and Equivalents	<u>59,192</u>
<i>Total Assets</i>	<u><u>\$ 5,216,603</u></u>
Net Assets	
Restricted for:	
Capital Projects	\$ 283,680
Debt Service	173,225
Set Asides	59,192
Claims	37,000
Other Purposes	459,021
Unrestricted	<u>4,204,485</u>
<i>Total Net Assets</i>	<u><u>\$ 5,216,603</u></u>

See accompanying notes to the basic financial statements

Northern Local School District
Statement of Activities - Modified Cash Basis
For the Fiscal Year Ended June 30, 2006

	Program Cash Receipts			Net (Cash Disbursements) Cash Receipts and Changes in Net Assets
	Cash Disbursements	Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities
Governmental Activities				
Current:				
Instruction:				
Regular	\$ 7,454,342	\$ 82,026	\$ 179,271	\$ (7,193,045)
Special	1,298,518	105,745	1,094,228	(98,545)
Vocational	271,057	-	84,486	(186,571)
Other	681,219	-	-	(681,219)
Support Services:				
Pupil	1,251,169	177,533	615,890	(457,746)
Instructional Staff	986,102	16,122	20,517	(949,463)
Board of Education	446,544	-	-	(446,544)
Administration	1,412,182	959	3,317	(1,407,906)
Fiscal	597,043	8,418	-	(588,625)
Business	22,307	-	-	(22,307)
Operation and Maintenance of Plant	2,305,135	-	-	(2,305,135)
Pupil Transportation	1,420,817	-	816,986	(603,831)
Central	39,743	-	-	(39,743)
Operation of Food Services	763,540	421,252	408,321	66,033
Community Services	144,967	52,306	24,604	(68,057)
Extracurricular Activities	598,589	384,977	-	(213,612)
Capital Outlay	529,785	-	-	(529,785)
Debt Service:				
Principal Retirement	535,000	-	-	(535,000)
Interest	330,050	-	-	(330,050)
<i>Totals</i>	<u>\$ 21,088,109</u>	<u>\$ 1,249,338</u>	<u>\$ 3,247,620</u>	<u>(16,591,151)</u>

General Receipts

Property Taxes Levied for:	
General Purposes	4,679,267
Capital Outlay	608,754
Debt Service	672,876
Grants and Entitlements not restricted to Specific Programs	10,684,053
Investment Earnings	138,491
Sale of Capital Assets	7,371
Miscellaneous	162,564
<i>Total General Receipts</i>	<u>16,953,376</u>
Change in Net Assets	<u>362,225</u>
<i>Net Assets Beginning of Year</i>	<u>4,854,378</u>
<i>Net Assets End of Year</i>	<u>\$ 5,216,603</u>

See accompanying notes to the basic financial statements

Northern Local School District
Statement of Assets and Fund Balances - Modified Cash Basis
Governmental Funds
June 30, 2006

	<u>General</u>	<u>Permanent Improvement</u>	<u>Building</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets					
Equity in Pooled Cash and Investments	\$ 3,824,748	\$ 282,648	\$ 1,032	\$ 632,246	\$ 4,740,674
Restricted Cash and Cash Equivalents	59,192	-	-	-	59,192
<i>Total Assets</i>	<u>\$ 3,883,940</u>	<u>\$ 282,648</u>	<u>\$ 1,032</u>	<u>\$ 632,246</u>	<u>\$ 4,799,866</u>
Fund Balances					
Reserved for Encumbrances	\$ 223,553	\$ 12,136	\$ 1,032	\$ 45,238	\$ 281,959
Reserved for BWC Refunds	59,192	-	-	-	59,192
Unreserved:					
Designated for Budget Stabilization	311,774	-	-	-	311,774
Undesignated, Reported in:					
General Fund	3,289,421	-	-	-	3,289,421
Special Revenue Funds	-	-	-	413,783	413,783
Debt Service Fund	-	-	-	173,225	173,225
Capital Projects Funds	-	270,512	-	-	270,512
<i>Total Fund Balances</i>	<u>\$ 3,883,940</u>	<u>\$ 282,648</u>	<u>\$ 1,032</u>	<u>\$ 632,246</u>	<u>\$ 4,799,866</u>

See accompanying notes to the basic financial statements

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

Total Governmental Fund Balances \$4,799,866

*Amounts reported for governmental activities in the statement of
net assets are different because*

Governmental activities' net assets include the internal service
funds' cash and cash equivalents. The proprietary funds'
statements include these assets.

416,737

Net Assets of Governmental Activities

\$5,216,603

See accompanying notes to the basic financial statements

Northern Local School District
Statement of Cash Receipts, Cash Disbursements and Changes in Fund Balances - Modified Cash Basis
Governmental Funds
For the Fiscal Year Ended June 30, 2006

	General	Permanent Improvement	Building	Other Governmental Funds	Total Governmental Funds
Receipts					
Property Taxes	\$ 4,679,267	\$ 608,754	\$ -	\$ 672,876	\$ 5,960,897
Intergovernmental	12,240,328	58,186	-	1,633,159	13,931,673
Interest	135,582	-	1,903	1,006	138,491
Tuition and Fees	443,109	-	-	-	443,109
Extracurricular Activities	-	-	-	384,977	384,977
Charges for Services	-	-	-	421,252	421,252
Miscellaneous	144,905	-	-	17,659	162,564
<i>Total Receipts</i>	<u>17,643,191</u>	<u>666,940</u>	<u>1,903</u>	<u>3,130,929</u>	<u>21,442,963</u>
Disbursements					
Current:					
Instruction:					
Regular	7,185,566	81,086	-	227,338	7,493,990
Special	1,009,761	-	-	293,075	1,302,836
Vocational	272,486	-	-	-	272,486
Other	681,219	-	-	-	681,219
Support Services:					
Pupil	761,315	-	-	492,039	1,253,354
Instructional Staff	947,267	-	-	44,684	991,951
Board of Education	446,544	-	-	-	446,544
Administration	1,418,351	6	-	2,657	1,421,014
Fiscal	554,099	21,038	-	23,331	598,468
Business	22,307	-	-	-	22,307
Operation and Maintenance of Plant	2,167,124	143,862	-	-	2,310,986
Pupil Transportation	1,431,120	-	-	-	1,431,120
Central	39,743	-	-	-	39,743
Operation of Food Services	2,585	-	-	765,010	767,595
Community Services	-	-	-	144,967	144,967
Extracurricular Activities	203,252	-	-	395,337	598,589
Capital Outlay	44,864	157,984	306,748	20,189	529,785
Debt Service:					
Principal Retirement	-	250,000	-	285,000	535,000
Interest and Fiscal Charges	-	70,237	-	259,813	330,050
<i>Total Disbursements</i>	<u>17,187,603</u>	<u>724,213</u>	<u>306,748</u>	<u>2,953,440</u>	<u>21,172,004</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>455,588</u>	<u>(57,273)</u>	<u>(304,845)</u>	<u>177,489</u>	<u>270,959</u>
Other Financing Sources (Uses)					
Sale of Capital Assets	7,371	-	-	-	7,371
<i>Total Other Financing Sources (Uses)</i>	<u>7,371</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>7,371</u>
<i>Net Change in Fund Balances</i>	462,959	(57,273)	(304,845)	177,489	278,330
<i>Fund Balances Beginning of Year</i>	3,420,981	339,921	305,877	454,757	4,521,536
<i>Fund Balances End of Year</i>	<u>\$ 3,883,940</u>	<u>\$ 282,648</u>	<u>\$ 1,032</u>	<u>\$ 632,246</u>	<u>\$ 4,799,866</u>

See accompanying notes to the basic financial statements

Northern Local School District

*Reconciliation of the Statement of Cash Receipts, Cash Disbursements and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For the Fiscal Year Ended June 30, 2006*

Net Change in Fund Balances - Total Governmental Funds	\$ 278,330
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*Amounts reported for governmental activities in the
statement of activities are different because*

Internal service funds charge insurance costs to other funds. The entity-wide statements eliminate governmental fund expenditures and related internal service fund charges. Governmental activities report allocated net internal service fund revenues (expenses).	<u>83,895</u>
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<i>Change in Net Assets of Governmental Activities</i>	<u><u>\$ 362,225</u></u>
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See accompanying notes to the basic financial statements

Northern Local School District
Statement of Cash Receipts, Cash Disbursements and Changes
In Fund Balance - Budget and Actual -Budget Basis
General Fund
For the Fiscal Year Ended June 30, 2006

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Cash Receipts				
Property Taxes	\$ 4,304,617	\$ 4,679,273	\$ 4,679,267	\$ (6)
Intergovernmental	11,260,280	12,240,328	12,240,328	-
Interest	126,552	137,567	135,582	(1,985)
Tuition and Fees	407,134	442,569	443,109	540
Miscellaneous	131,397	142,833	144,905	2,072
<i>Total Cash Receipts</i>	16,229,980	17,642,570	17,643,191	621
Cash Disbursements				
Current:				
Instruction:				
Regular	6,718,665	7,188,677	7,187,504	1,173
Special	971,525	1,039,489	1,037,989	1,500
Vocational	255,779	273,672	273,360	312
Other	646,482	691,707	691,420	287
Support Services:				
Pupil	733,834	785,170	777,887	7,283
Instructional Staff	887,289	949,360	948,095	1,265
Board of Education	420,886	450,330	449,854	476
Administration	1,334,651	1,428,018	1,427,067	951
Fiscal	521,518	558,001	557,568	433
Business	20,850	22,309	22,307	2
Operation and Maintenance of Plant	2,103,326	2,250,467	2,249,358	1,109
Pupil Transportation	1,400,750	1,498,741	1,498,303	438
Central	37,145	39,743	39,743	-
Operation of Food Services	2,420	2,589	2,585	4
Extracurricular Activities	190,049	203,344	203,253	91
Capital Outlay	41,930	44,863	44,863	-
<i>Total Cash Disbursements</i>	16,287,099	17,426,480	17,411,156	15,324
<i>Excess of Cash Receipts Over (Under)</i> <i>Cash Disbursements</i>	(57,119)	216,090	232,035	15,945
Other Financing Sources (Uses)				
Sale of Capital Assets	-	7,371	7,371	-
<i>Total Other Financing Sources (Uses)</i>	-	7,371	7,371	-
<i>Net Change in Fund Balance</i>	(57,119)	223,461	239,406	15,945
<i>Fund Balance Beginning of Year</i>	3,236,736	3,236,736	3,236,736	-
<i>Prior Year Encumbrances Appropriated</i>	184,245	184,245	184,245	-
<i>Fund Balance End of Year</i>	\$ 3,363,862	\$ 3,644,442	\$ 3,660,387	\$ 15,945

See accompanying notes to the basic financial statements

Northern Local School District
Statement of Fund Net Assets - Modified Cash Basis
Proprietary Fund
June 30, 2006

	Governmental Activity
	Internal Service
Assets	
Equity in Pooled Cash and Investments	\$ 416,737
<i>Total Assets</i>	\$ 416,737
Net Assets	
Restricted for Claims	37,000
Unrestricted	379,737
	\$ 416,737

See accompanying notes to the basic financial statements

Northern Local School District
*Statement of Cash Receipts,
Cash Disbursements and Changes in Fund Net Assets - Modified Cash Basis
Proprietary Funds
For the Fiscal Year Ended June 30, 2006*

	Governmental Activity
	Internal Service
Operating Receipts	
Charges for Services	\$ 2,157,961
<i>Total Operating Receipts</i>	2,157,961
 Operating Disbursements	
Claims	2,074,066
<i>Total Operating Disbursements</i>	2,074,066
 <i>Change in Net Assets</i>	83,895
 <i>Net Assets Beginning of Year</i>	332,842
 <i>Net Assets End of Year</i>	\$ 416,737

See accompanying notes to the basic financial statements

Northern Local School District
Statement of Fiduciary Net Assets - Modified Cash Basis
Fiduciary Funds
June 30, 2006

	Private Purpose Trust	Agency
Assets		
Equity in Pooled Cash and Investments	\$ 160,509	\$ 44,601
<i>Total Assets</i>	\$ 160,509	\$ 44,601
Net Assets		
Held in Trust for Scholarships	\$ 160,509	
Held for Student Activities		\$ 44,601

See accompanying notes to the basic financial statements

Northern Local School District
Statement of Changes in Fiduciary Net Assets - Modified Cash Basis
Fiduciary Fund
For the Fiscal Year Ended June 30, 2006

	Private Purpose Trust
Additions	
Contributions	\$ 33,545
Interest	6,375
<i>Total Additions</i>	39,920
 Deductions	
Scholarships Awarded	6,625
<i>Total Deductions</i>	6,625
 Change in Net Assets	33,295
 Net Assets - Beginning of Year	127,214
 Net Assets - End of Year	\$ 160,509

See accompanying notes to the basic financial statements

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Northern Local School District
Perry County
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

Note 1 - Description of the School District and Reporting Entity

The Northern Local School District (the "School District") is organized under Article VI, Sections 2 and 3 of the Constitution of the State of Ohio. The School District operates under a locally-elected Board form of government consisting of five members elected at-large for staggered four year terms. The School District provides educational services as authorized by State statute and federal guidelines.

The Northern Local School District of Perry County was established on June 10, 1968 by the State of Ohio as a public school system. The School District is a consolidated school district made up from three original existing high schools in the area, Glenford, Somerset, and Thornville, combined now to be Sheridan High School. The School District is located in three counties, Perry, Licking, and Fairfield. It serves an area of 165 square miles with an approximate enrollment of 2,355 students. The School District is staffed by 173 certificated employees and 83 non-certificated who provide services to 2,355 students and other community members. The School District currently operates five instructional buildings, one administrative building, and one support service building.

Reporting Entity

The reporting entity is comprised of the primary government, component units, and other organizations that are included to insure that the financial statements of the School District are not misleading. The primary government consists of all funds, departments, boards, and agencies that are not legally separate from the School District. For the School District, this includes general operations, food service and student related activities of the School District.

Component units are legally separate organizations for which the School District is financially accountable. The School District is financially accountable for an organization if the School District appoints a voting majority of the organization's governing board and (1) the School district is able to significantly influence the programs or services performed or provided by the organization; or (2) the School District is legally entitled to or can otherwise access the organization's resources; the School District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the School District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the School District in that the School District approves the budget, the issuance of debt, or the levying of taxes. The School District does not have any component units.

The School District participates in four jointly governed organizations, two insurance purchasing pools, and is associated with one related organization. These organizations are the Southeastern Ohio voluntary Education Cooperative (SEOVEC), the Metropolitan Educational Council (MEC), Central Ohio Special Education Regional Resource Center, the School Study Council of Ohio, the Ohio School Boards Association Workers Compensation Group Rating Plan, and the Ohio School Plan. These organizations are presented in Notes 11 and 12 to the basic financial statements.

Northern Local School District
Perry County
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

Note 2 - Summary of Significant Accounting Policies

As discussed further in Note 2.A, these financial statements are presented on a modified cash basis of accounting. This modified cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements, which have been applied to the extent they are applicable to the modified cash basis of accounting. In the government-wide financial statements and the fund financial statements for the proprietary funds, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied, to the extent they are applicable to the modified cash basis of accounting, unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails. Following are the more significant of the School District's accounting policies.

A. Basis of Accounting

The School District's financial statements are prepared using the modified cash basis of accounting. Except for modifications having substantial support, receipts are recorded in the School District's financial records and reported in the financial statements when cash is received rather than when earned and disbursements are recorded when cash is paid rather than when a liability is incurred.

As a result of the use of this modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements.

B. Basis of Presentation

The School District's basic financial statements prepared on the modified cash basis of accounting include a government-wide statement, including a modified cash basis statement of net assets and a statement of activities, and modified cash basis fund financial statements which provide a more detailed level of financial information.

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

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

Northern Local School District
Perry County
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

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

C. Fund Accounting

The School District uses funds to maintain its financial records during the fiscal 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. The following are descriptions of the School District's major governmental funds:

General Fund The general fund is the operating fund of the School District and is used to account for all financial resources except those required to be accounted for in another fund.

Permanent Improvement Fund The permanent improvement fund is used to account for all transactions related to the acquiring, constructing, or improving of such permanent improvements as are authorized by Chapter 5705, Revised Code.

Building Fund The building fund is used to account for the cash receipts and cash disbursements related to the School District's Ohio School Facilities Commission program.

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

Proprietary Fund Types Proprietary fund reporting focuses on the determination of operating income, changes in net assets, financial position, and cash flows. Proprietary funds are classified as enterprise or internal service. As described in Note 6 the School District uses an internal service fund to account for medical/surgical and dental which the School District self insures.

Fiduciary Fund Type Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the School District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the School District's own programs. The School District's endowment funds have been classified as a private purpose trust and reported accordingly. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The School District's agency fund accounts for student activities.

D. Cash and Investments

To improve cash management, cash received by the School District is pooled. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through the School District's records. Interest in the pool is presented as equity in pooled cash and cash equivalents on the financial statements.

Northern Local School District
Perry County
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

During fiscal year 2006, investments were limited to the State Treasury Asset Reserve of Ohio (STAR Ohio), repurchase agreements, certificates of deposits, federal notes, and the Alliance Reserve Government Portfolio. Repurchase agreements and certificates of deposit are reported at cost.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest receipts recorded by the School District during fiscal year 2006 amounted to \$144,866. Of this amount, the general fund recorded \$135,582 the building fund recorded \$1,903, other governmental funds recorded \$1,006 and private purpose trust funds recorded \$6,375 in interest.

Investments of the cash management pool and investments are presented on the financial statements as equity in pooled cash and investments.

E. Budgetary Data

All funds, other than agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the appropriation resolution, and the certificate of estimated resources, which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amounts that the Board of Education may appropriate. The appropriation resolution is the Board's authorization to spend resources and set annual limits on expenditures at a level of control selected by the Board. The legal level of control has been established by the Board of Education at the fund level. The General Fund "Statement of Cash Receipts, Cash Disbursements and Changes in Fund Balance – Budget and Actual – Budget Basis" has been presented at the function level for comparative purposes.

The certificate of estimated resources may be amended during the fiscal year if projected increases or decreases in receipts are identified by the School District Treasurer. The amounts reported as the original budgeted amounts in the budgetary statement reflect the amounts in the certificate when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statement reflect the amounts in the amended certificate in effect at the time final appropriations were passed.

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

F. Capital Assets

Capital assets are not recognized in any of the School District's funds in accordance with the cash basis of accounting. Instead, capital acquisition and construction costs are reflected as cash disbursements in the fund in the year expended. The costs of normal maintenance and repairs are also expended, along with improvements. Depreciation is not recorded.

G. Compensated Absences

Employees are entitled to vacation, sick, and personal leave benefits that are recorded as a cash disbursement when incurred. A liability for these unused benefits is not recorded on the School District's modified cash basis financial statements.

Northern Local School District
Perry County
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

H. Long-Term Liabilities

Modified cash basis financial statements do not report liabilities for bonds and other long-term obligations. Proceeds of debt are reported when cash is received and principal and interest payments are reported when cash disbursements are made.

I. Net Assets

Net assets are recorded in conjunction with assets recorded by the School District. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

Net assets restricted for other purposes include activities for food service operations, music and athletic programs, and state and federal grants restricted to cash disbursements for specified purposes.

The School District applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net assets are available. Neither type of transaction occurred in fiscal year 2006.

J. Interfund Activity

Transfers within governmental activities are eliminated on the government-wide financial statements.

Exchange transactions between funds are reported as cash receipts in the seller funds and as cash disbursements 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 cash disbursements to the funds that initially paid for them are not presented on the financial statements.

K. Fund Reserves / Designations

Reserved fund balances indicate that portion of fund balance which is not available for current appropriation or is legally segregated for a specific use. Designated fund balance indicates that portion of fund balance for which management has an intended use of the resources. Fund balances are reserved for encumbrances and Bureau of Worker's Compensation refunds. The unreserved portion of fund balance reflected for the governmental funds are available for use within specific purposes of those funds. The amount set-aside by the Board for Budget Stabilization is reported as a designation of fund balance in the General Fund.

L. Operating Cash Receipts and Cash Disbursements

Operating cash receipts are those cash receipts that are generated directly from the primary activity of the proprietary fund. For the School District, these cash receipts are charges for services for self-insurance programs. Operating cash disbursements are necessary costs incurred to provide the service that is the primary activity of the fund.

M. 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 are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal year 2006.

Northern Local School District
Perry County
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

N. Restricted Assets

Cash is reported as restricted when limitation on its use changes the nature or normal understanding of its use. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments, or imposed by law through constitutional provisions or enabling legislation. The School District had restricted assets reported for the Bureau of Workers Compensation refund as recorded in the General Fund.

Note 3 – Compliance

Compliance

Ohio Administrative Code, Section 117-2-03 (B), requires the School District to prepare its annual financial report in accordance with generally accepted accounting principles. However, the School District prepared its financial statements on a modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The accompanying financial statements omit assets, liabilities, net assets/fund balances, and disclosures that, while material, cannot be determined at this time. The School District can be fined and various other administrative remedies may be taken against the School District.

In addition, the School District had negative cash fund balances throughout the fiscal year contrary to Ohio Revised Code Section 5705.10.

Note 4 - Deposits and Investments

Ohio law requires that deposits be placed in eligible banks or savings and loan associations located in Ohio. Any public depository in which the Authority places deposits must pledge as collateral eligible securities of aggregate market value equal to the excess of deposits not insured by the Federal Deposit Insurance Corporation (FDIC). The securities pledged as collateral are pledged to a pool for each individual financial institution in amounts equal to at least 105% of the carrying value of all public deposits held by each institution. Obligations that may be pledged as collateral are limited to obligations of the United States and its agencies and obligations of any state or any instrumentality of such county, municipal corporation or other authority.

Deposits At June 30, 2006 the carrying amount of the School District's deposits was \$110,723 and the bank balance was \$124,639. The bank balance was insured by federal depository insurance (FDIC).

Investments The School District has adopted a formal investment policy. The primary objective of the policy is the preservation of principal. To meet this objective, portfolio diversification is established and maintained with a goal of generating portfolio income that exceeds any losses in individual security values. Funds are invested in accordance with Section 135 "Uniform Depository Act" of the Ohio Revised Code as revised by Senate Bill 81. The types of obligations eligible for investment and deposit include:

1. U.S. Treasury bills, Notes, and bonds; various federal agency securities, including issues of Federal National Mortgage Association (FNMA), Federal Home Loan Mortgage Corporation (FHLMC), Federal Home Loan Bank (FHLB), Federal Farm Credit Bank (FFCB, Student Loan Marketing Association (SLMA, Government National Mortgage (GNMA), and other agencies or instrumentalities of the United States. Eligible investments included securities that may be "called" (by the issuer) prior to the final maturity date. All eligible investments may be purchased at a premium or a discount. All federal agency securities shall be direct issuances of the federal government agencies or instrumentalities.

Northern Local School District
Perry County
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

2. Commercial paper notes issued by companies incorporated under the laws of the United States; specific limitations apply as defined under Ohio Revised Code Section 135.14(B)(7).
3. Bankers acceptances issued by any domestic bank rated in the highest category by a nationally recognized rating agency; specific limitations apply as defined under Ohio Revised Code Section 135.14(B)(7).
4. Certificates of deposit from any eligible institution mentioned in Ohio Revised Code Section 135.32.
5. No-load money market mutual funds rated in the highest category by at least one nationally recognized rating agency, investing exclusively in the same types of eligible securities as defined in Ohio Revised Code Sections 135.14(B)(1) and 135.14(B)(2) and repurchase agreements secured by such obligations. Eligible money market funds shall comply with ORC Section 135.01 regarding limitations and restrictions.
6. Repurchase agreements with any eligible institutions mentioned in Ohio Revised Code Section 135.32, or any eligible securities dealer pursuant to Ohio Revised Code Section 135.32(J), except that such eligible securities dealers shall be restricted to primary government securities dealers.

Repurchase agreements will settle on a delivery vs. payment basis with collateral held in the safekeeping by a third party custodian. The market value of securities subject to a repurchase agreement must exceed the principal value of the repurchase agreement by at least two percent as defined under the Ohio Revised Code.

7. The state treasurer's investment pool (STAR Ohio), pursuant to Ohio Revised Code Section 135.45.

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. STAROhio is not registered with the Securities Exchange Commission as an investment company, but does operate in a manner similar to rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAR Ohio's share price which is the price the investment could be sold for on June 30, 2006.

At June 30, 2006, the School District had the following investments:

	Fair Value	Maturity in Years		Percent to Total
		Less than 1	1 to 3	
Certificates of Deposits	\$ 140,000	\$ 140,000	\$ -	2.64%
STAROhio	2,955,823	2,955,823	-	55.65%
Federal Agency Securities	2,215,167	-	2,215,167	41.71%
Total	\$5,310,990	\$3,095,823	\$2,215,167	100.00%

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 School District's investment policy limits investment portfolio maturities to five years or less.

Credit Risk The School District's investments in STAR Ohio are rated AAAM by Standard & Poor's. U.S. government agency securities are not considered to have credit risk.

Northern Local School District
Perry County
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

Concentration of Credit Risk The School District places no limit on the amount that may be invested in any one issuer.

Deposits and investments at June 30, 2006 reconcile to the Statement of Net Assets as follows:

	Balance June 30, 2006
Carrying Amount of Deposit	\$ 110,723
Certificates of Deposit	140,000
STAROhio	2,955,823
Federal Agency Securities	2,215,167
Less: Statement of Fiduciary	
Net Assets - Cash and Cash Equivalents	(205,110)
Total - Statement of Net Assets	\$ 5,216,603

Note 5 - Property Taxes

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

Property taxes include amounts levied against all real property, public utility property, and tangible personal (used in business) property located in the School District. Real property tax receipts received in calendar year 2006 represent the collection of calendar year 2005 taxes. Real property taxes received in calendar year 2006 were levied after April 1, 2005, on the assessed values as of January 1, 2005, the lien date. Assessed values for real property taxes are established by State statute at thirty-five 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 receipts received in calendar year 2006 represent the collection of calendar year 2005 taxes. Public utility real and tangible personal property taxes received in calendar year 2006 became a lien on December 31, 2005, were levied after April 1, 2005, and are collected with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

Tangible personal property tax receipts received in calendar 2006 (other than public utility property) represent the collection of calendar year 2006 taxes. Tangible personal property taxes received in calendar year 2005 were levied after April 1, 2005, on the value as of December 31, 2005. Tangible personal property is currently assessed at twenty-five percent of true value for capital assets and twenty-three percent for inventory. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually.

Northern Local School District
Perry County
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

If paid annually, payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the School District prior to June 30.

The School District receives property taxes from Perry, Licking and Fairfield County. The County Auditors periodically advance to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2006, are available to finance fiscal year 2006 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

The chart below provides a summary of the tax collections during the fiscal year ending June 30, 2006:

	2005 Second - Half Collections		2006 First- Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/ Residential and Other Real Estate	\$2,235,224	95.66%	\$3,445,100	95.05%
Public Utility Personal	70,837	3.03%	139,077	3.84%
Tangible Personal Property	30,497	1.31%	40,162	1.11%
Total	\$2,336,558	100.00%	\$3,624,339	100.00%
Full Tax rate per \$1,000 of assessed valuation	\$35.72		\$35.72	

Note 6 - Risk Management

A. Property and Liability

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2006, the School District contracted with Indiana Insurance for property, builder's risk, liability, and fleet insurances.

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Northern Local School District
Perry County
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

Coverage provided is as follows:

Building and Contents-replacement cost (\$5,000 deductible)	\$60,807,717
Accounts Receivable (\$5,000 deductible)	100,000
Equipment (\$250 deductible)	50,000
Extra Expense	300,000
Employee Dishonesty (\$10,000 deductible)	1,000,000
Fleet Insurance	2,000,000
Educational General Liability	
Per occurrence	1,000,000
Aggregate per year	3,000,000
Employee Benefits Liability	
Per occurrence	1,000,000
Aggregate per year	3,000,000

Settled claims have not exceeded this commercial coverage in any of the past three fiscal years. There has been no significant reduction in insurance coverage in fiscal year 2006 from fiscal year 2005.

B. Workers Compensation

For fiscal year 2006, the School District participated in the Ohio School Board Association (OSBA) Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (Note 12) established under Section 4123.29 of the Ohio Revised Code. The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Participation in the GRP is limited to school districts and libraries that can meet the GRP's selection criteria. The firm of Gates McDonald, Inc. provides administration costs and actuarial services to the GRP.

C. Self Insurance

During the fiscal year ended June 30, 2006, employees of the School District were covered by the School District's medical/surgical and dental self-insurance Plan (the "Plan"). The School District contributed approximately 90% per month per employee to the Plan and employees authorized payroll withholdings to pay their share of the premium which was approximately 10% per month. The total premiums paid into the internal service fund of the School District was \$2,157,961 of which the School District paid \$1,931,472 while the employees were responsible for the remaining portion.

In addition, the Plan agreement requires that the School District set-aside funds for unexpected claims. The amount set-aside during fiscal year 2006 was \$37,000 and will be reviewed continually on an on-going basis.

Northern Local School District
Perry County
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

A comparison of the internal service fund cash and investments to the actuarially-measured liability as of June 30, 2006 follows:

	2006	2005
Cash and investments	\$416,737	\$332,842
Claims liabilities at June 30	\$54,985	\$ 46,587

Note 7 - Defined Benefit Pension Plans

A. School Employees Retirement System

The School District contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by 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 43215-3476 or by calling 614-222-5853.

Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current School District rate is 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2006, 2005, and 2004, were \$353,514, \$344,016 and \$275,796, respectively; 100 percent has been contributed for fiscal year 2006 and 100 percent for fiscal years 2005 and 2004.

B. State Teachers Retirement System

The School District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. 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 43215-3371, by calling (614) 227-4090, or by visiting the STRS Ohio Web site at www.strsoh.org.

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 member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5% of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan.

Northern Local School District
Perry County
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

A DB or Combined Plan member with five or more years credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits.

Members in the DC Plan who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

For the fiscal year ended June 30, 2006, plan members were required to contribute 10 percent of their annual covered salaries. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2006, the portion used to fund pension obligations was also 13 percent. STRS Ohio is funded through investments and contributions made by members and their employers. Members contribute 10% of gross earnings. Employers contribute an additional 14% of members' annual salary into the Employers' Trust Fund. There are approximately 1,061 employers who contribute to STRS Ohio, including city and local school districts, county educational service centers, exempted village districts, vocational and technical schools, colleges and universities, county boards of mental retardation and developmental disabilities, as well as the state of Ohio.

During 2004–2005 (the latest information available), member contributions plus payments for purchased service credit, totaled \$997.8 million. The contributions from 1,061 employers, combined with service credit purchased by employers through retirement incentive plans, totaled \$1.34 billion. During this same period STRS Ohio experienced a net investment income of \$6.5 billion. As of June 30, 2005, STRS Ohio's net assets available for benefits were \$59.6 billion. Approximately \$39.7 billion of this amount has been placed in the Annuity and Pension Reserve Fund to pay benefits to more than 115,400 retired teachers and other beneficiaries.

The School District's required contributions for pension obligations to the DB Plan for the fiscal years ended June 30, 2006, 2005, and 2004, were \$1,120,846, \$1,087,024 and \$1,022,328, respectively; 100 percent has been contributed for fiscal year 2006 and 100 percent for fiscal years 2005 and 2004.

Note 8 - Postemployment Benefits

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

All STRS Ohio benefit recipients and sponsored dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll.

Northern Local School District
Perry County
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

For the fiscal year ended June 30, 2006, the STRS Ohio Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the School District, this amount equaled \$77,380 for fiscal year 2006.

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2005, (the latest information available) the balance in the Fund was \$3.3 billion. For the year ended June 30, 2006, net health care costs paid by STRS Ohio were \$254,780,000 and STRS Ohio had 115,395 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than twenty-five years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75 percent of the premium.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2006, employer contributions to fund health care benefits were 4.91 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit.

For fiscal year 2006, the minimum pay was established at \$27,400. For the School District, the amount contributed to fund health care benefits during the 2006 fiscal year equaled \$379,178.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. Net health care costs for the fiscal year ended June 30, 2005 (the latest information available), were \$178,221,113. The target level for the health care fund is 150 percent of the projected claims less premium contributions for the next fiscal year. As of June 30, 2005, the value of the health care fund was \$267.5 million, which is about 168% of next year's projected net health care costs of \$158,776,151. The number of participants eligible to receive benefits is approximately 58,000.

Note 9 – Lease Obligations

A. Capital Lease

The District has entered into capitalized leases for copiers and computers. Each lease meets the criteria of a capital lease as defined by Financial Accounting Standards Board Statement No. 13, "Accounting for Leases." This statement defines a capital lease as one which transfers benefits and risks of ownership to the lessee.

Due to the School District reporting on the modified cash basis of accounting, the accompanying copiers and computers are not reflected as assets and liabilities within the accompanying financial statements. During fiscal year 2006, the School District refinanced its copier leases for future cash flow savings.

Northern Local School District
Perry County
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

The revised agreements provide for minimum annual rental payments as follows:

Fiscal Year Ending June 30:	<u>Principal</u>	<u>Interest</u>
2007	\$41,480	\$14,657
2008	45,815	10,321
2009	43,598	5,701
2010	33,558	1,683
2011	<u>5,360</u>	<u>50</u>
Total	<u>\$169,811</u>	<u>\$32,412</u>

Note 10 - Long Term Obligations

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

	<u>Principle Outstanding June 30, 2005</u>	<u>Additions</u>	<u>Deletions</u>	<u>Principle Outstanding June 30, 2005</u>	<u>Due Within One Year</u>
Government Activities					
School Facilities Constuction Bonds					
Issued 10/01; Mature 10/23; 3.3%-5.00%	\$ 5,549,000		\$ (220,000)	\$ 5,329,000	\$ 230,000
Permanent Improvement Tax Anticipation Notes					
Issued 11/98; Mature 10/08; 5.23%-5.65%	1,250,000		(250,000)	1,000,000	250,000
School Energy Conversation Bonds					
Issued 09/99; Mature 10/09; 4.35%-4.50%	<u>280,000</u>		<u>(65,000)</u>	<u>215,000</u>	<u>70,000</u>
Total Governmental Activities					
Long-Term Liabilities	<u>\$ 7,079,000</u>		<u>\$ (535,000)</u>	<u>\$ 6,544,000</u>	<u>\$ 550,000</u>

School Facilities Construction Bonds were adjusted to the actual balance per the related amortization table.

The School Improvement Bonds were issued in 2001 and the proceeds were used for construction of new school facilities. These bonds are direct obligations of the School District for which its full faith, credit, and resources are pledged and are payable from taxes levied on all taxable property within the School District.

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

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

Northern Local School District
Perry County
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

Debt service requirements to maturity on the debt, principal and interest, are as follows:

Fiscal Year Ending June 30,	OSFC Construction Bonds Issued in Fiscal Year 2001		P.I. Tax Anticipation Note Issued in Fiscal Year 1999	
	Principal	Interest	Principal	Interest
2007	230,000	244,770	250,000	55,000
2008	235,000	236,260	250,000	41,625
2009	245,000	227,213	250,000	28,000
2010	89,819	382,594	250,000	14,125
2011	79,181	393,231	-	-
2012-2016	1,395,000	968,291	-	-
2017-2021	1,765,000	596,000	-	-
2022-2023	1,290,000	131,000	-	-
Total	<u>\$5,329,000</u>	<u>\$3,179,359</u>	<u>\$1,000,000</u>	<u>\$138,750</u>

Fiscal Year Ending June 30,	HB 264 Energy Conservation Bonds Issued in Fiscal Year 2000		All Debt	
	Principal	Interest	Principal	Interest
2007	70,000	8,101	550,000	307,871
2008	70,000	4,951	555,000	282,836
2009	75,000	1,688	570,000	256,901
2010	-	-	339,819	396,719
2011	-	-	79,181	393,231
2012-2016	-	-	1,395,000	968,291
2017-2021	-	-	1,765,000	596,000
2022 - 2023	-	-	1,290,000	131,000
Total	<u>\$215,000</u>	<u>\$14,740</u>	<u>\$6,544,000</u>	<u>\$3,332,849</u>

Note 11 - Jointly Governed Organizations

A. Southeastern Ohio Voluntary Education Cooperative

The School District is a participant in the Southeastern Ohio Voluntary Education Cooperative which is a computer consortium. SEOVEC is an association which services thirty entities within the boundaries of eight counties. These entities consist of public school districts, private schools, and educational service centers. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. The governing board of SEOVEC consists of the superintendents from all participating districts.

The continued existence of SEOVEC is not dependent on the School District's continued participation and no equity interest exists. The SEOVEC constitution states that any school district withdrawing from the Association prior to dissolution forfeits their claim to the Association's capital assets. The School District's total payments to SEOVEC for fiscal year 2006 were \$54,777. Financial statements for SEOVEC can be obtained from their fiscal agent, the Southeastern Ohio Voluntary Education Cooperative, 221 North Columbus Road, P.O. Box 1250, Athens, Ohio 45701.

Northern Local School District
Perry County
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

B. Metropolitan Educational Council

The School District participates in the Metropolitan Educational Council (MEC), a jointly governed organization. The organization is composed of over 135 members which includes school districts, joint vocational schools, educational service centers, and libraries covering 24 counties in Central Ohio.

The MEC helps its members purchase services, insurances, supplies, and other items at a discounted rate. The governing board of MEC is composed of either the superintendent, a designated representative or a member of the board of education for each participating school district in Franklin County (18 school districts) and one representative from each county. Each year, the participating school districts pay a membership fee to MEC to cover the costs of administering the program. Financial information may be obtained from the Metropolitan Educational Council, Denise Music, who serves as fiscal officer, at 6100 Channingway Blvd., Suite 604, Columbus, OH 43232.

C. Central Ohio Special Education Regional Resource Center

The Central Ohio Special Educational Regional Resource Center (COSERRC) provides special education services at a regional level and assists school districts in complying with the mandates of P.L. 101-476 and P.L. 99-457 for educating children with disabilities.

There is no financial commitment by the School District for its participation in the projects. The School District has one representative on the governing board. The School District did not make any contributions to COSERRC during fiscal year 2006. Further information may be obtained by contacting the Central Ohio Special Education Regional Resource Center at 470 Glenmont Avenue, Columbus, Ohio 43214.

D. School Study Council of Ohio

The School Study Council of Ohio (Council) is a jointly governed organization operated by a Board of Trustees (Board) that is comprised of numerous Ohio school districts. The purpose of the Council is to bring about the improvement of education in member school organizations. School districts maintain active membership by paying a yearly membership fee which entitles each school district to attend Council meetings and voting privileges.

School districts that elect to be associate members are entitled to attend meetings and participate in Council discussions but are not entitled to vote. The Board is annually elected from within the Council's active membership. In fiscal year 2006, the Board consisted of fourteen members.

In fiscal year 2006, the School District did not make any contributions to the School Study Council of Ohio. Financial information may be obtained by contacting the School Study Council of Ohio at 4807 Evanswood Drive, Suite 300, Columbus, Ohio 43229.

Note 12 – Insurance Purchasing Pools

Ohio School Boards Association Workers' Compensation Group Rating Plan

The School District participates in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool.

Northern Local School District
Perry County
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

The GRP's business and affairs are conducted by a three member Board of directors consisting of the President, the President-Elect and the Immediate Past President of the OSBA. The Executive Director of the OSBA, or his designee, serves as coordinator of the program. Each year, the participating school districts pay an enrollment fee to the GRP to cover the costs of administering the program.

Ohio School Plan

The School District participates in the Ohio School Plan (OSP), an insurance purchasing pool. The Ohio School Plan (OSP) is created and organized pursuant to and as authorized by Section 2744.081 of the Ohio Revised Code. The OSP is an unincorporated, non-profit association of its members and an instrumentality for each member for the purpose of enabling members of the Plan to provide for a formalized, joint insurance purchasing program to maintain adequate insurance protection, risk management programs and other administrative services.

The OSP's business and affairs are conducted by a fifteen member Board of directors consisting of school district superintendents and treasurers, as well as the president of Harcum-Hyre Insurance Agency, Inc. and a partner of the Hylant Group, Inc. Hylant Group, Inc. is the Administrator of the OSP and is responsible for processing claims. Harcum-Hyre Insurance Agency, Inc. is the sales and marketing representative, which establishes agreements between OSP and member schools.

Note 13 - Contingencies

A. Grants

The School District received financial assistance from federal and state agencies in the form of grants. The cash 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 general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2006.

B. Litigation

The School District is currently not a party to any material legal proceedings.

Note 14 - Set asides

The School District is required by State statute to annually set aside in the General Fund an amount based on a statutory formula for the purchase of textbooks and other instructional materials and an equal amount for the acquisition and construction of capital improvements. Amounts not spent by year end or offset by similarly restricted resources received during the year must be held in cash at year end and carried forward to be used for the same purposes in future years. The budget stabilization reserve is optional; however, the Board elected to continue funding the reserve as permitted by law.

Northern Local School District
Perry County
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

The following describes the changes in the year end set-aside:

	Textbooks	Capital Acquisition	Budget Stabilization	
			Designated	Reserved
Set-aside Reserve Balance as of June 30, 2005	(\$604,225)	(\$1,856,987)	\$311,774	\$59,192
Current Year Set-aside Requirement	341,076	341,076	-	-
Current Year Offsets	-	(608,754)	-	-
Qualifying Disbursements	(268,259)	(178,448)	-	-
Total	(\$531,408)	(\$2,303,113)	\$311,774	\$59,192
Balance carried forward to FY 2006	(\$531,408)	(\$2,303,113)	\$311,774	\$59,192

The School District had qualifying cash disbursements during the year that reduced the set-aside amount below zero for the textbooks reserve and this extra amount may be used to reduce the set-aside requirement for future fiscal years. The School District has a continuous permanent improvement levy of which those proceeds may be used to reduce the capital acquisition reserve below zero for future fiscal years. Therefore, these negative amounts are being presented as being carried forward to the next fiscal year.

Note 15 – Budgetary Basis of Accounting

The budgetary basis as provided by law is based upon accounting for certain transactions on the basis of cash receipts, cash disbursements, and encumbrances. The Statement of Cash Receipts, Cash Disbursements and Change in Fund Balance – Budget and Actual – Budget Basis presented for the General Fund is prepared on the budgetary basis to provide a meaningful comparison of actual results with the budget. The difference between the budgetary basis and the modified cash basis is outstanding fiscal year end encumbrances which are treated as cash disbursements (budgetary basis) rather than as a reservation of fund balance (modified cash basis). The encumbrances outstanding at year end (budgetary basis) amounted to \$223,553 for the General Fund.

Note 16 – State School Funding

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

The Supreme Court relinquished jurisdiction over the case and directed “...the Ohio General Assembly to enact a school-funding scheme that is thorough and efficient...”

The School District is currently unable to determine what effect, if any, this decision will have its future State funding and on its financial operations.

**NORTHERN LOCAL SCHOOL DISTRICT
PERRY COUNTY**

**SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

Federal Grantor/ Pass thru Grantor/ Program Title	Pass-Through Entity Number	Federal CFDA Number	Cash Receipts	Non-Cash Receipts	Cash Disbursements	Non-Cash Disbursements
<u>U.S. DEPARTMENT OF AGRICULTURE</u>						
<i>Passed through Ohio Department of Education:</i>						
<i>Child Nutrition Cluster:</i>						
Food Donation	N/A	10.550	\$ -	\$ 42,726	\$ -	\$ 42,726
School Breakfast Program	05-PU	10.553	139,769	-	139,769	-
National School Lunch Program	LL-P1,P4	10.555	255,121	-	255,121	-
<i>Total Child Nutrition Cluster</i>			<u>394,890</u>	<u>42,726</u>	<u>394,890</u>	<u>42,726</u>
Total U.S. Department of Agriculture			<u>394,890</u>	<u>42,726</u>	<u>394,890</u>	<u>42,726</u>
<u>U.S. DEPARTMENT OF EDUCATION</u>						
<i>Passed through Ohio Department of Education:</i>						
Title I Grants to Local Educational Agencies	C1-S1	84.010	284,949	-	285,086	-
Special Education-Grants to States	6B-SF	84.027	498,662	-	498,662	-
Safe and Drug Free Schools and Communities-State Grants	DR-S1	84.186	10,851	-	10,851	-
State Grants for Innovative Programs	C2-S1	84.298	7,005	-	6,916	-
Education Technology State Grants	TJ-S1	84.318	2,042	-	4,252	-
Advanced Placement Program	AV-TF	84.330	750	-	750	-
Improving Teacher Quality State Grants	TR-S1	84.367	102,790	-	112,500	-
Total U.S. Department of Education			<u>907,049</u>	<u>-</u>	<u>919,017</u>	<u>-</u>
TOTAL FEDERAL ASSISTANCE			<u>\$ 1,301,939</u>	<u>\$ 42,726</u>	<u>\$ 1,313,907</u>	<u>\$ 42,726</u>

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

**NORTHERN LOCAL SCHOOL DISTRICT
PERRY COUNTY**

**NOTES TO SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B - FOOD DISTRIBUTION

Non-monetary assistance, such as food received from the U. S. Department of Agriculture, is reported in the Schedule at the fair market value of the commodities received and consumed. Cash receipts from the U.S. Department of Agriculture are commingled with State grants. It is assumed federal monies are expended first. Program regulations do not require the School District to maintain separate inventory records for purchased food and food received from the U.S. Department of Agriculture.

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



Report on Internal Control over Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards*

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

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Northern Local School District, Perry County, Ohio (the "School District") as of and for the fiscal year ended June 30, 2006, which collectively comprise the School District's basic financial statements and have issued our report thereon dated November 2, 2006, wherein we noted the School District prepares its financial statements on a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. In a separate letter to the School District's management dated November 2, 2006, we reported matters involving the internal control over financial reporting we did not deem reportable conditions.

Wilson, Shannon & Snow, Inc.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* which are described in the accompanying Schedule of Findings as items 2006-1 and 2006-2.

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

Wilson, Shuman & Snow, Inc.

Newark, Ohio
November 2, 2006



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

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

Compliance

We have audited the compliance of Northern Local School District, Perry County, Ohio (the School District) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal programs for the fiscal year ended June 30, 2006, wherein we noted the School District prepares its financial statements on a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The School District's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the School District's management. Our responsibility is to express an opinion on the School District's compliance based on our audit.

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

In our opinion, the School District complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the fiscal year ended June 30, 2006.

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Internal Control over Compliance

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

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

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

Wilson, Sherman & Snow, Inc.

Newark, Ohio
November 2, 2006

**NORTHERN LOCAL SCHOOL DISTRICT
PERRY COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 §.505**

JUNE 30, 2006

1. SUMMARY OF AUDITOR'S RESULTS

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unqualified
<i>(d)(1)(ii)</i>	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(iii)</i>	Was there any reported material non-compliance at the financial statement level (GAGAS)?	Yes
<i>(d)(1)(iv)</i>	Were there any material internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unqualified
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510?	No
<i>(d)(1)(vii)</i>	Major Programs (list):	Nutrition Cluster \ 10.550, 10.553, 10.555.
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A\B Programs	Type A: > \$ 300,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	Yes

**NORTHERN LOCAL SCHOOL DISTRICT
PERRY COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 §.505**

JUNE 30, 2006

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

Finding Number	2006-1
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Ohio Administrative Code Section 117-2-03 (B) requires the School District to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America (GAAP). However, the School District prepares its financial statements on the basis of accounting formerly prescribed or permitted by the Auditor of the State of Ohio, which is a basis of accounting other than generally accepted accounting principles.

The accompanying financial statements omit assets, liabilities, fund equities, and disclosures that, while material, cannot be determined at this time. The School District can be fined and various other administrative remedies may be taken against the School District.

We recommend the School District file its annual report in accordance with accounting principles generally accepted in the United States of America. The School District may find the information contained within the GAAP financial statements to be helpful in future projections and budgeting funds.

Finding Number	2006-2
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Ohio Revised Code Section 5705.10 establishes guidance for distribution of revenue derived from tax levies, proceeds from sale of bond issue, and proceeds from sale of permanent improvement. The section states that money that is paid into a fund must be used for only the purposes for which such fund has been established; as a result, a negative fund balance indicates that money from one fund was used to cover the expenses of another fund.

It was noted during the audit that the School District maintained negative fund balances for the month of April 2006 in the following amounts:

Major Fund	Amount
Building Fund	\$137,365
Non-Major Funds	Amount
Debt Service	\$192,178
Summer School	2,436
Title I	12,154
Preschool	397
Education Technology State Grants	1,467

**NORTHERN LOCAL SCHOOL DISTRICT
PERRY COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 §.505**

JUNE 30, 2006

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

Finding Number	2006-2
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By having negative fund balances, School District funds have spent other funds' balances. No fund should have a negative cash fund balance throughout the fiscal year or at fiscal year end.

We recommend that the School District expend monies only after funds have been received and are properly appropriated. If funds are anticipated, but not yet received and expenditures are necessary, the School District should advance or transfer funds from the General Fund with proper Board of Education approval. We recommend the School District utilize its accounting software program to its fullest and continually review relevant reports to assist in not having funds with negative fund balances.

3. FINDINGS FOR FEDERAL AWARDS

None

**NORTHERN LOCAL SCHOOL DISTRICT
PERRY COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
OMB CIRCULAR A-133 §.505**

JUNE 30, 2006

<u>Finding Number</u>	<u>Finding Summary</u>	<u>Fully Corrected?</u>	<u>Not Corrected, Partially Corrected Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:</u>
2005-1	Ohio Administrative Code Section 117-2-03(B) requires that the School District prepare its financial report in accordance with accounting principles generally accepted in the United States of America.	No	The School District prepared its financial statements in accordance with the GASB 34 format on a modified cash basis. Re-issued as finding 2006-1.
2005-2	Ohio revised Code Section 5705.10 negative cash fund balances.	No	Reissued as Finding 2006-2.

**NORTHERN LOCAL SCHOOL DISTRICT
PERRY COUNTY**

**CORRECTIVE ACTION PLAN
OMB CIRCULAR A-133 §.505**

JUNE 30, 2006

Finding Number	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person
2006-1	Preparation of annual financial report in accordance with GAAP. The School District will continue to prepare the financial statements in accordance with the GASB 34 format on the modified cash basis of accounting and not in accordance with GAAP.	N/A	Liz Arnold, Treasurer
2006-2	Eliminate and/or reduce monthly deficits reported.	This process will be implemented for fiscal year 2007.	Liz Arnold, Treasurer



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NORTHERN LOCAL SCHOOL DISTRICT

PERRY COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JANUARY 16, 2007**