



**Auditor of State
Betty Montgomery**

**HARDIN NORTHERN LOCAL SCHOOL DISTRICT
HARDIN COUNTY**

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Education:

We have audited the accompanying financial statements of the Hardin Northern Local School District, Hardin County, (the "District"), as of and for the fiscal years ended June 30, 2004 and 2003. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

Ohio Administrative Code Section 117-2-03 (B) requires the District to prepare its annual financial report in accordance with generally accepted accounting principles. However, as discussed in Note 2, the accompanying financial statements and notes have been prepared on a basis of accounting in accordance with standards established by the Auditor of State for governmental entities that are not required to prepare annual reports in accordance with generally accepted accounting principles. This basis of accounting is a comprehensive basis of accounting other than generally accepted accounting principles. The accompanying financial statements and notes omit assets, liabilities, fund equities, and disclosures that, while material, cannot be determined at this time.

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined cash, investments, and combined fund cash balances of the District, as of June 30, 2004 and 2003, and its combined cash receipts and disbursements and its combined budgeted and actual receipts and budgeted and actual disbursements and encumbrances, for the years then ended on the basis of accounting described in Note 2.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 10, 2005 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

February 10, 2005

**HARDIN NORTHERN LOCAL SCHOOL DISTRICT
HARDIN COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND CHANGES IN FUND CASH BALANCES
ALL GOVERNMENTAL FUND TYPES AND SIMILAR FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

	<u>Governmental Fund Types</u>				<u>Fiduciary Funds</u>	<u>Total (Memorandum Only)</u>
	<u>General Fund</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Expendable Trusts</u>	
Cash Receipts:						
From Local Sources:						
Property Taxes	\$874,601			\$73,274		\$947,875
Income Taxes	437,708					437,708
Tuition	240,212					240,212
Earnings on Investments	13,109	12				13,121
Extracurricular Activities		86,622				86,622
Classroom Materials and Fees	18,866					18,866
Other Local Revenues	4,539	16,099			900	21,538
Intergovernmental - State	2,254,267	26,974		22,520		2,303,761
Intergovernmental - Federal		114,780		167,767		282,547
Total Cash Receipts	3,843,302	244,487		263,561	900	4,352,250
Cash Disbursements:						
Current:						
Instruction:						
Regular	1,874,584	57,679		15,111		1,947,374
Special	302,943	60,448				363,391
Vocational	190,813	3,324				194,137
Support services:						
Pupil	125,934					125,934
Instructional Staff	99,661	21,856				121,517
Board of Education	21,451					21,451
Administration	555,650	10,780			950	567,380
Fiscal	161,940			2,126		164,066
Operations and Maintenance	279,349	466		43,953		323,768
Pupil Transportation	202,387					202,387
Extracurricular Activities	102,794	101,303				204,097
Facilities Services				250,016		250,016
Debt Service:						
Principal Retirement			25,000			25,000
Interest and Fiscal Charges			4,581			4,581
Total Cash Disbursements	3,917,506	255,856	29,581	311,206	950	4,515,099
Receipts (under) Disbursements	(74,204)	(11,369)	(29,581)	(47,645)	(50)	(162,849)
Other Financing Sources (Uses):						
Operating Transfers In		36,766	29,581			66,347
Operating Transfers Out	(10,000)	(36,766)		(29,581)		(76,347)
Total Other Financing Sources (Uses)	(10,000)		29,581	(29,581)		(10,000)
Receipts and Other Financing Sources (Under) Expenditures and Other Uses	(84,204)	(11,369)		(77,226)	(50)	(172,849)
Fund Cash Balances, July 1	963,785	118,654		212,669	729	1,295,837
Fund Cash Balances, June 30	\$879,581	\$107,285	\$0	\$135,443	\$679	\$1,122,988
Reserve for Encumbrances, June 30	\$29,354	\$13,800				\$43,154

The notes to the general purpose financial statements are an integral part of this statement.

**HARDIN NORTHERN LOCAL SCHOOL DISTRICT
HARDIN COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS,
AND CHANGES IN FUND CASH BALANCES
PROPRIETARY FUND TYPE AND SIMILAR FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

	<u>Proprietary Fund Type</u>	<u>Fiduciary Funds</u>	<u>Total (Memorandum Only)</u>
	<u>Enterprise Funds</u>	<u>Agency</u>	
Operating Cash Receipts:			
Food Service	\$101,377		\$101,377
Extracurricular Activities		81,246	81,246
Total Operating Cash Receipts	101,377	81,246	182,623
Operating Cash Disbursements:			
Personal Services	90,082		90,082
Contract Services	3,412	10,271	13,683
Materials and Supplies	54,897	51,625	106,522
Other Expenses	169	20,081	20,250
Total Operating Cash Disbursements	148,560	81,977	230,537
Operating (Loss)	(47,183)	(731)	(47,914)
Nonoperating Cash Receipts:			
Grants	23,619		23,619
Interest Revenue	128		128
Total Nonoperating Cash Receipts	23,747		23,747
Net Loss Before Operating Transfers	(23,436)	(731)	(24,167)
Operating Transfers In	16,000		16,000
Operating Transfers Out	(6,000)		(6,000)
Net (Loss)	(13,436)	(731)	(14,167)
Fund Cash Balances at July 1	21,442	27,089	48,531
Fund Cash Balances at June 30	<u>\$8,006</u>	<u>\$26,358</u>	<u>\$34,364</u>
Reserve for Encumbrances, June 30		<u>\$614</u>	<u>\$614</u>

The notes to the general purpose financial statements are an integral part of this statement.

**HARDIN NORTHERN LOCAL SCHOOL DISTRICT
HARDIN COUNTY**

**COMBINED STATEMENT OF RECEIPTS-BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

Fund Types/Fund	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable/ (Unfavorable)</u>
Governmental:			
General Fund	\$3,901,866	\$3,843,302	(\$58,564)
Special Revenue Funds	352,400	281,253	(71,147)
Debt Service Funds	31,000	29,581	(1,419)
Capital Project Funds	281,744	263,561	(18,183)
Proprietary:			
Enterprise Funds	155,385	141,124	(14,261)
Fiduciary:			
Expendable Trust Funds	900	900	
Agency	<u>84,703</u>	<u>81,246</u>	<u>(3,457)</u>
Total (Memorandum Only)	<u><u>\$4,807,998</u></u>	<u><u>\$4,640,967</u></u>	<u><u>(\$167,031)</u></u>

The notes to the financial statements are an integral part of this statement.

**HARDIN NORTHERN LOCAL SCHOOL DISTRICT
HARDIN COUNTY**

**COMBINED STATEMENT OF DISBURSEMENTS AND
ENCUMBRANCES COMPARED WITH EXPENDITURE AUTHORITY
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

Fund Types/Fund	Prior Year Carryover <u>Appropriations</u>	FY 2004 <u>Appropriations</u>	<u>Total</u>
Governmental:			
General Fund	\$10,309	\$4,306,471	\$4,316,780
Special Revenue Funds	3,610	319,860	323,470
Debt Service Funds		30,500	30,500
Capital Project Funds	95,687	326,497	422,184
Proprietary:			
Enterprise Funds	2,216	156,731	158,947
Fiduciary:			
Expendable Trust Funds		950	950
Agency	<u>118</u>	<u>79,112</u>	<u>79,230</u>
Total (Memorandum Only)	<u><u>\$111,940</u></u>	<u><u>\$5,220,121</u></u>	<u><u>\$5,332,061</u></u>

The notes to the financial statements are an integral part of this statement.

<u>Actual FY 2004 Disbursements</u>	<u>Encumbrances Outstanding At 6-30-04</u>	<u>Total</u>	<u>Variance Favorable/ (Unfavorable)</u>
\$3,927,506	\$29,354	\$3,956,860	\$359,920
292,622	13,800	306,422	17,048
29,581		29,581	919
340,787		340,787	81,397
154,560		154,560	4,387
950		950	
<u>81,977</u>	<u>614</u>	<u>82,591</u>	<u>(3,361)</u>
<u><u>\$4,827,983</u></u>	<u><u>\$43,768</u></u>	<u><u>\$4,871,751</u></u>	<u><u>\$460,310</u></u>

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**HARDIN NORTHERN LOCAL SCHOOL DISTRICT
HARDIN COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND CHANGES IN FUND CASH BALANCES
ALL GOVERNMENTAL FUND TYPES AND SIMILAR FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

	Governmental Fund Types				Fiduciary Funds	Total (Memorandum Only)
	General Fund	Special Revenue	Debt Service	Capital Projects	Expendable Trusts	
Cash Receipts:						
From Local Sources:						
Property Taxes	\$922,312			\$70,343		\$992,655
Income Taxes	393,948					393,948
Tuition	14,051					14,051
Earnings on investments	19,781	45			111	19,937
Extracurricular Activities		119,961				119,961
Classroom Materials and Fees	16,403					16,403
Other Local Revenues	14,302	14,879			1,451	30,632
Intergovernmental - State	2,265,741	20,675		9,443		2,295,859
Intergovernmental - Federal		134,042		79,693		213,735
Total Cash Receipts	3,646,538	289,602		159,479	1,562	4,097,181
Cash Disbursements:						
Current:						
Instruction:						
Regular	1,604,223	64,653		19,541	7,051	1,695,468
Special	302,895	83,979				386,874
Vocational	190,882	1,208		506		192,596
Support services:						
Pupil	137,626					137,626
Instructional Staff	91,561	29,697				121,258
Board of Education	23,900					23,900
Administration	470,059	12,266				482,325
Fiscal	214,306			2,027		216,333
Operations and Maintenance	282,420	965		10,421		293,806
Pupil Transportation	196,087					196,087
Extracurricular Activities	103,799	132,390				236,189
Facilities Services				4,493		4,493
Debt Service:						
Principal Retirement			25,000			25,000
Interest and Fiscal charges			5,794			5,794
Total Cash Disbursements	3,617,758	325,158	30,794	36,988	7,051	4,017,749
Excess of Receipts over/(under) Disbursements	28,780	(35,556)	(30,794)	122,491	(5,489)	79,432
Other Financing Sources (Uses):						
Proceeds from Sale of Assets	2,754					2,754
Operating Transfers In			30,794			30,794
Advances In	54,261	54,261				108,522
Refund of prior year expenditures	2,613					2,613
Operating Transfers Out				(30,794)		(30,794)
Advances Out	(54,261)	(54,261)				(108,522)
Total Other Financing Sources (Uses)	5,367		30,794	(30,794)		5,367
Excess of Receipts and Other Financing Sources Over (Under) Expenditures and Other Uses	34,147	(35,556)		91,697	(5,489)	84,799
Fund Cash Balances, July 1 (Restated - See Note 3)	929,638	154,210		120,972	6,218	1,211,038
Fund Cash Balances, June 30	\$963,785	\$118,654		\$212,669	\$729	\$1,295,837
Reserve for Encumbrances, June 30	\$10,309	\$3,610		\$95,687		\$109,606

The notes to the general purpose financial statements are an integral part of this statement.

**HARDIN NORTHERN LOCAL SCHOOL DISTRICT
HARDIN COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS,
AND CHANGES IN FUND CASH BALANCES
PROPRIETARY FUND TYPE AND SIMILAR FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

	<u>Proprietary Fund Type</u>	<u>Fiduciary Funds</u>	<u>Total (Memorandum Only)</u>
	<u>Enterprise Funds</u>	<u>Agency</u>	
Operating Cash Receipts:			
Food Service	\$97,397		\$97,397
Extracurricular Activities		69,670	69,670
Total Operating Cash Receipts	97,397	69,670	167,067
Operating Cash Disbursements:			
Personal Services	81,480		81,480
Contract Services	1,366	12,900	14,266
Materials and Supplies	58,926	46,747	105,673
Other Expenses	169	3,319	3,488
Total Operating Cash Disbursements	141,941	62,966	204,907
Operating Income/(Loss)	(44,544)	6,704	(37,840)
Non-Operating Cash Receipts:			
Grants	31,811		31,811
Interest Revenue	109		109
Total Non-Operating Cash Receipts	31,920		31,920
Net Income /(Loss)	(12,624)	6,704	(5,920)
Fund Cash Balances at July 1 (Restated - See Note 3)	34,067	20,385	54,452
Fund Cash Balances at June 30	\$21,443	\$27,089	\$48,532
Reserve for Encumbrances, June 30	\$362	\$118	\$480

The notes to the general purpose financial statements are an integral part of this statement.

**HARDIN NORTHERN LOCAL SCHOOL DISTRICT
HARDIN COUNTY**

**COMBINED STATEMENT OF RECEIPTS-BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

Fund Types/Fund	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable/ (Unfavorable)</u>
Governmental:			
General Fund	\$3,790,018	\$3,706,166	(\$83,852)
Special Revenue Funds	397,812	343,863	(53,949)
Debt Service Funds	30,794	30,794	
Capital Project Funds	348,987	159,479	(189,508)
Proprietary:			
Enterprise Funds	168,239	129,317	(38,922)
Fiduciary:			
Expendable Trust Funds	2,061	1,562	(499)
Agency	<u>75,326</u>	<u>69,670</u>	<u>(5,656)</u>
Total (Memorandum Only)	<u><u>\$4,813,237</u></u>	<u><u>\$4,440,851</u></u>	<u><u>(\$372,386)</u></u>

The notes to the financial statements are an integral part of this statement.

**HARDIN NORTHERN LOCAL SCHOOL DISTRICT
HARDIN COUNTY**

**COMBINED STATEMENT OF DISBURSEMENTS AND
ENCUMBRANCES COMPARED WITH EXPENDITURE AUTHORITY
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

Fund Types/Fund	Prior Year Carryover <u>Appropriations</u>	FY 2003 <u>Appropriations</u>	<u>Total</u>
Governmental:			
General Fund	\$43,184	\$4,111,633	\$4,154,817
Special Revenue Funds	6,408	389,094	395,502
Debt Service Funds		30,794	30,794
Capital Project Funds	717	364,469	365,186
Proprietary:			
Enterprise Funds	2,470	184,549	187,019
Fiduciary:			
Expendable Trust Funds	500	6,501	7,001
Agency	<u>558</u>	<u>77,894</u>	<u>78,452</u>
Total (Memorandum Only)	<u><u>\$53,837</u></u>	<u><u>\$5,164,934</u></u>	<u><u>\$5,218,771</u></u>

The notes to the financial statements are an integral part of this statement.

<u>Actual FY 2003 Disbursements</u>	<u>Encumbrances Outstanding At 6-30-03</u>	<u>Total</u>	<u>Variance Favorable/ (Unfavorable)</u>
\$3,672,019	\$10,309	\$3,682,328	\$472,489
379,419	3,610	383,029	12,473
30,794		30,794	
67,782	95,687	163,469	201,717
141,941	362	142,303	44,716
7,051		7,051	(50)
<u>62,966</u>	<u>118</u>	<u>63,084</u>	<u>15,368</u>
<u><u>\$4,361,972</u></u>	<u><u>\$110,086</u></u>	<u><u>\$4,472,058</u></u>	<u><u>\$746,713</u></u>

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**HARDIN NORTHERN LOCAL SCHOOL DISTRICT
HARDIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED JUNE 30, 2004 AND JUNE 30, 2003**

1. DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

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

The District is the 590th largest in the State of Ohio (among 613 school districts) in terms of enrollment. During fiscal year 2004, the District was staffed by seventeen classified employees, thirty-eight certified teaching personnel, and two administrative employees who provide services to five hundred and two students and other community members. During fiscal year 2003, the District was staffed by twenty classified employees, forty-five certified teaching personnel, and two administrative employees who provide services to five hundred and four students and other community members. The District currently operates three instructional/support buildings.

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

Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the organization's governing board and (1) the District is able to significantly influence the programs or services performed or provided by the organization; or (2) the District is legally entitled to or can otherwise access the organization's resources; the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the District in that the District approves the budget, the issuance of debt, or the levying of taxes. There are no component units of the Hardin Northern Local School District.

The District participates in six jointly governed organizations and three insurance pools, and is associated with a related organization. These organizations are the Western Ohio Computer Organization, Apollo Career Center, West Central Regional Professional Development Center, Hardin County Schools Consortium Local Professional Development Committee, Northwestern Ohio Educational Research Council, Inc., West Central Ohio Special Education Regional Resource Center, Ohio School Boards Association Workers' Compensation Group Rating Plan, Hardin County School Employees' Health and Welfare Benefit Plan and Trust, Schools of Ohio Risk Sharing Authority, and the Hardin Northern Public Library. These organizations are discussed in Notes 11, 12 and 13 to the general purpose financial statements.

**HARDIN NORTHERN LOCAL SCHOOL DISTRICT
HARDIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED JUNE 30, 2004 AND 2003
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Accounting

Although required by Ohio Administrative Code Section 117-2-03 (B) to prepare its annual financial report with generally accepted accounting principles (GAAP), the District chooses to prepare its financial statements and notes in accordance with standards established by the Auditor of State for governmental entities that are not required to prepare annual financial reports in accordance with generally accepted accounting principals. This basis of accounting is similar to the cash receipts and disbursements basis of accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved).

These statements include adequate disclosure of material matters, in accordance with the basis of accounting described in the preceding paragraph.

B. Fund Accounting

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

A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts recording receipts and disbursements in accordance with special restrictions or limitations. For financial statement presentation purposes, the various funds of the District are grouped into the following generic fund types under the broad fund categories governmental, proprietary and fiduciary.

1. Governmental Fund Types:

Governmental funds are those through which most governmental functions of the District are financed. The following are the District's governmental fund types:

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

Special Revenue Funds - Special revenue funds are used to account for the proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to expenditure for specified purposes.

Debt Service Fund - The debt service fund is used to account for the accumulation of resources for, and the payment of, general long-term obligation principal, interest, and related costs.

Capital Projects Funds - The capital projects funds are used to account for financial resources to be used for the acquisition of equipment and for the acquisition or construction of major capital facilities (other than those financed by proprietary or trust funds).

**HARDIN NORTHERN LOCAL SCHOOL DISTRICT
HARDIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED JUNE 30, 2004 AND 2003
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2. Proprietary Fund Type:

Proprietary funds are used to account for the District's ongoing activities which are similar to those found in the private sector. The following is the District's proprietary fund type:

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

3. Fiduciary Fund Types:

Fiduciary funds are used to account for assets held by the District in a trustee capacity or as an agent for individuals, private organizations, other governmental units and/or other funds. The District's fiduciary funds include expendable trust, and agency funds. Expendable trust funds are accounted for in essentially the same manner as governmental funds. Agency funds are custodial in nature and do not involve measurement of results of operations.

C. Budgetary Process

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

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

1. Tax Budget:

With the passage of House Bill #129 (spring 2001), a county budget commission may waive the submission of a subdivision's annual tax budget. On August 6, 2002, the Hardin County Budget Commission adopted a resolution waiving the requirement for the adoption of a tax budget for fiscal year 2003 and all future fiscal years for all school districts within Hardin County. In lieu of a full tax budget, the Commission will require the school districts to submit a copy of the five-year forecast annually by October 31st. This waiver of the tax budget does not change any other financial reporting requirements.

2. Estimated Resources:

Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the County Budget Commission and receives the commission's certificate of estimated resources which states the projected revenue of each fund.

**HARDIN NORTHERN LOCAL SCHOOL DISTRICT
HARDIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED JUNE 30, 2004 AND 2003
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Prior to June 30, the District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the certificate of estimated resources. The revised budget then serves as the basis for the appropriation measure. On or about July 1, the Certificate is amended to include any unencumbered cash balances from the preceding year. The Certificate may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The amounts reported in the budgetary statements reflect the amounts in the final amended certificate issued during fiscal years 2004 and 2003.

3. Appropriations:

Upon receipt from the County Auditor of an amended certificate of estimated resources based on final assessed values and tax rates or a certificate saying no new certificate is necessary, the annual appropriation resolution must be legally enacted by the Board of Education at the fund, function, and object level of expenditures, which are the legal levels of budgetary control. Prior to the passage of the annual appropriation measure, the Board may pass a temporary appropriation measure to meet the ordinary expenses of the District.

The appropriation resolution, by fund, must be within the estimated resources as certified by the County Budget Commission and the total of expenditures and encumbrances may not exceed the appropriation totals at any level of control. Any revisions that alter the total of any fund appropriation or alter total function appropriations within a fund, or alter object appropriations within functions, must be approved by the Board of Education.

The Board may pass supplemental fund appropriations so long as the total appropriations by fund do not exceed the amounts set forth in the most recent certificate of estimated resources. During the fiscal years audited, several supplemental appropriations were legally enacted.

The budget figures which appear in the statements of budgetary comparisons represent the final appropriation amounts, including all supplemental appropriations. Formal budgetary integration is employed as a management control device during the year for all funds other than agency funds, consistent with statutory provisions.

4. Encumbrances:

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

5. Lapsing of Appropriations:

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

**HARDIN NORTHERN LOCAL SCHOOL DISTRICT
HARDIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED JUNE 30, 2004 AND 2003
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

6. Compliance

The District did not amend its certificate of estimated resources as required by Ohio Rev. Code Section 5705.36; the Board did not approve all appropriation changes as required by Ohio Rev. Code Section 5705.40; the District had expenditures greater than appropriations at the legal level of control which violated Ohio Rev. Code Section 5705.41(B), and the Treasurer did not certify all expenditures prior to obligation as required by Ohio Rev. Code Section 5705.41(D).

D. Cash and Cash Equivalents

To improve cash management, all cash received by the District is pooled in a central bank account. Monies for all funds, including enterprise funds, are maintained in this account or temporarily used to purchase short term investments. Individual fund integrity is maintained through District records.

Investments are stated at cost. Investment earnings are allocated as authorized by State statute based upon District policy.

E. Property, Plant and Equipment

Fixed assets acquired or constructed for general governmental service are recorded as expenditures. Depreciation is not recorded for these fixed assets.

F. Unpaid Vacation and Sick Leave

Employees are entitled to cash payments for unused vacation and sick leave in certain circumstances, such as upon leaving employment. Unpaid vacation and sick leave are not reflected as liabilities under the cash basis of accounting used by the District.

G. Interfund Transactions

Quasi-external transactions are accounted for as revenues and expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed.

Nonrecurring or nonroutine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

H. Total Columns on General Purpose Financial Statements

Total columns on the general purpose financial statements are captioned "Total - (Memorandum Only)" to indicate that they are presented only to facilitate financial analysis. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

**HARDIN NORTHERN LOCAL SCHOOL DISTRICT
HARDIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED JUNE 30, 2004 AND 2003
(Continued)**

3. CHANGES IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF FUND BALANCES

For fiscal year 2003, the School District changed its method of accounting for financial reporting from accounting principles generally accepted in the United States of America to a basis of accounting formerly prescribed or permitted for school districts by the Auditor of State. This comprehensive basis of accounting is similar to the cash receipts and disbursements basis of accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred. This change has the following effect on fund balances as previously reported:

	<u>Fund Balance / Retained Earnings, June 30, 2002</u>	<u>Accrual Adjustments</u>	<u>Restated Fund Balance 7/1/2002</u>
General	\$1,081,633	\$(151,995)	\$ 929,638
Special Revenue	147,517	6,693	154,210
Debt Service			
Capital Projects	12,336	108,636	120,972
Enterprise	(11,526)	45,593	34,067
Expendable Trust Funds	5,779	439	6,218
Agency Funds		20,385	20,385
Total (Memorandum Only)	\$1,235,739	\$29,751	\$1,265,490

4. DEPOSITS AND INVESTMENTS

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

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

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

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

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

**HARDIN NORTHERN LOCAL SCHOOL DISTRICT
HARDIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED JUNE 30, 2004 AND 2003
(Continued)**

4. DEPOSITS AND INVESTMENTS (Continued)

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

1. United States Treasury Notes, Bills, Bonds, or other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal or interest by the United States;
2. Bonds, notes, debentures, or other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of the federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions; and
6. The State Treasurer's investment pool (STAR Ohio).

Investments in stripped principal or interest obligations, reverse purchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the District, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions.

Payment for investments may be made only upon delivery of the securities representing the investments to the treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

The District has included undeposited cash on hand of \$364 as of June 30, 2004 and \$130 as of June 30, 2003 in the fund balances.

The following information classifies deposits and investments by categories of risk as defined in GASB Statement 3, "Deposits with Financial Institutions, Investments and Reverse Repurchase Agreements".

Deposits: At fiscal year end 2004, the carrying amount of the District's deposits was \$(40,332) and the bank balance was \$27,494. Of the bank balance, \$27,494 was covered by federal depository insurance and no amounts were uninsured and uncollateralized. Although the securities serving as collateral were held by the pledging financial institution's trust department in the District's name and all State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements would potentially subject the District to a successful claim by the Federal Deposit Insurance Corporation.

**HARDIN NORTHERN LOCAL SCHOOL DISTRICT
HARDIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED JUNE 30, 2004 AND 2003
(Continued)**

Deposits: At fiscal year end 2003, the carrying amount of the District's deposits was \$54,036 and the bank balance was \$101,811. Of the bank balance, \$101,811 was covered by federal depository insurance and no amounts were uninsured and uncollateralized.

Although the securities serving as collateral were held by the pledging financial institution's trust department in the District's name and all State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements would potentially subject the District to a successful claim by the Federal Deposit Insurance Corporation.

Investments: The District's investments are categorized to give an indication of the level of risk assumed by the District at fiscal year end. Category 1 includes investments that are insured or registered or for which the securities are held by the District or its agent in the District's name. Category 2 includes uninsured and unregistered investments which are held by the counterparty's trust department or agent in the District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the District's name.

The District's investment STAR Ohio, an investment pool operated by the Ohio State Treasurer, is unclassified because the investment is not evidenced by securities that exist in physical or book entry form. The District's investment in STAR Ohio was \$1,197,320 as of June 30, 2004 and \$1,290,203 as of June 30, 2003.

5. PROPERTY TAXES

Property taxes are levied and assessed on a calendar year basis, while the District operates on a fiscal year from July through June. First half tax collections are received by the District in the second half of the fiscal year. Second half tax distributions occur in the first half of the following year. Property taxes include amounts levied against all real, public utility and tangible personal (used in business) property located in the District. Real property taxes are levied April 1 on the assessed value listed as of the prior January 1, the lien date.

Public utility property taxes attached as a lien on December 31 of the prior fiscal year, were levied April 1 and are collected with real property taxes. Assessed values for real property taxes are established by State law at 35 percent of appraised market value. All property is required to be revalued every six years. Public utility property taxes are assessed on tangible personal property at 88 percent of true value (with certain exceptions) and on real property at 35 percent of true value.

Tangible personal property taxes are levied after April 1 on the value listed as of December 31 of the current year. Tangible personal property assessments are 25 percent of true value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits earlier or later payment dates to be established.

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

**HARDIN NORTHERN LOCAL SCHOOL DISTRICT
HARDIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED JUNE 30, 2004 AND 2003
(Continued)**

5. PROPERTY TAXES (Continued)

The Counties' Auditors periodically advance to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2004 are available to finance fiscal year 2004 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

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

	2004 First - Half Collections		2003 Second- Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential and Other Real Estate	\$37,151,920	89.36	\$36,868,050	88.93
Public Utility	3,821,370	6.79	2,927,570	7.61
Tangible Personal	<u>1,601,403</u>	<u>3.85</u>	<u>1,547,650</u>	<u>3.46</u>
Total Assessed Value	\$41,574,693	100.00	\$41,343,270	100.00
Tax rate per \$1,000 of assessed valuation	\$37.35		\$37.35	

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

	2003 First - Half Collections		2002 Second- Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential and Other Real Estate	\$36,868,050	88.93	\$36,751,260	88.93
Public Utility	2,927,570	7.61	3,147,290	7.61
Tangible Personal	<u>1,547,650</u>	<u>3.46</u>	<u>1,428,173</u>	<u>3.46</u>
Total Assessed Value	\$41,343,270	100.00	\$41,326,723	100.00
Tax rate per \$1,000 of assessed valuation	\$37.35		\$37.35	

6. INCOME TAX

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

7. RISK MANAGEMENT

A. Property and Liability

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year 2003, the District joined the Schools of Ohio Risk Sharing Authority (SORSA) for general liability insurance with a \$3,000,000 single occurrence limit and a \$5,000,000 annual aggregate. Property is also protected by SORSA with a building and business personal property limit of \$8,466,927.

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

**HARDIN NORTHERN LOCAL SCHOOL DISTRICT
HARDIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED JUNE 30, 2004 AND 2003
(Continued)**

7. RISK MANAGEMENT (Continued)

B. Workers' Compensation

For fiscal years 2004 and 2003, the District participated in the Ohio School Boards Association Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool. The intent of the GRP is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participants is calculated as one experience and a common premium rate is applied to all participants in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to participants that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control, and actuarial services to the GRP.

C. Employee Health Benefits

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

8. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The 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 43215-3746.

Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current school district rate is 14 percent of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2004, 9.09 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2003, 8.17 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board.

**HARDIN NORTHERN LOCAL SCHOOL DISTRICT
HARDIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED JUNE 30, 2004 AND 2003
(Continued)**

8. DEFINED BENEFIT PENSION PLANS (Continued)

The District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2004, 2003 and 2002 were \$40,624, \$30,858 and \$20,104 respectively; 100% percent has been contributed for fiscal year 2004, 2003 and 2002.

B. State Teachers Retirement System

The 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 or by calling (614) 227-4090.

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. 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 years ended June 30, 2004 and 2003, plan members were required to contribute 10 percent of their annual covered salaries. The District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The District's required contributions for pension obligations for the fiscal years ended June 30, 2004, 2003, and 2002 were \$241,466, \$235,514, and \$167,387 respectively; 100 percent has been contributed for fiscal year 2004, 2003, and 2002. Contributions to the DC Plan for fiscal year 2003 were \$8 made by the District and \$7 made by plan members. The District had no contributions under the Combined Plan.

**HARDIN NORTHERN LOCAL SCHOOL DISTRICT
HARDIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED JUNE 30, 2004 AND 2003
(Continued)**

8. DEFINED BENEFIT PENSION PLANS (Continued)

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement System/State Teachers Retirement System. As of June 30, 2004, all five members of the Board of Education have elected SERS. The Board's liability is 14% percent of wages paid.

9. POSTEMPLOYMENT BENEFITS

The District provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System (STRS), and to retired 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 funded on a pay-as-you-go basis.

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. For fiscal years 2004 and 2003, the Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the District, this amount equaled \$18,574 for fiscal year 2004 and \$18,116 for fiscal year 2003.

STRS pays health care benefits from the Health Care Reserve Fund. The balance in the Fund was \$3.1 billion at June 30, 2004. For the fiscal year ended June 30, 2004, net health care costs paid by STRS were \$268,739,000, and STRS had 111,853 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 fiscal 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.

Employer contributions to fund health care benefits were 4.91 percent of covered payroll in fiscal year 2004 and 5.83 percent of covered payroll in fiscal year 2003. 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. The minimum pay was established at \$24,500 for fiscal year 2004 and \$14,500 for fiscal year 2003. For the District, the amount to fund health care benefits, including the surcharge, was \$29,180, for fiscal year 2004 and \$21,157 for fiscal year 2003.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2004, were \$223,443,805, and the target level was \$335.2 million. At June 30, 2004, SERS had net assets available for payment of health care benefits of \$300.8 million. SERS has approximately 62,000 participants currently receiving health care benefits.

**HARDIN NORTHERN LOCAL SCHOOL DISTRICT
HARDIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED JUNE 30, 2004 AND 2003
(Continued)**

10. LONG-TERM OBLIGATIONS

The changes in the District's long-term obligations during fiscal years 2004 and 2003 are as follows:

	Balance at 7/1/03	Additions	Reductions	Balance at 6/30/04
Tax Anticipation Note Obligations	100,000		25,000	75,000
Capital Lease Obligations	59,528		14,416	45,112
Total Long-Term Obligations	\$159,528		\$39,416	\$120,112

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

	Balance at 7/1/02	Additions	Reductions	Balance at 6/30/03
Tax Anticipation Note Obligations	125,000		25,000	100,000
Capital Lease Obligations	73,076		13,548	59,528
Total General Long-Term Obligations	\$198,076		\$38,548	\$159,528

A. Tax Anticipation Notes

During fiscal year 1997, the District issued tax anticipation notes, in the amount of \$250,000, for improving the District's buildings. The notes were issued for a ten year period at an interest rate of 5.15 percent. Principal, in the amount of \$25,000, was retired during fiscal years 2004 and 2003. The principal outstanding at June 30, 2004, was \$75,000. The notes are being paid with tax levy monies which are recorded in the Capital Projects Fund and transferred to the Debt Service Fund for payment.

Principal and interest requirements to retire the tax anticipation notes outstanding at June 30, 2004, are as follows:

Fiscal Year Ending June 30,	Amount
2005	\$28,219
2006	26,931
2007	25,644
Total	80,794
Less Interest	(5,794)
Total Principal	\$75,000

B. Capitalized Leases – Lesees Disclosure

The District has entered into capitalized leases for buses. Each lease meets the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. New capital leases are reflected in the accounts "Capital Outlay" and "Inception of Capital Lease" in the funds which will be making the lease payments. Capital lease payments are reflected as debt service expenditures on the financial statements for governmental funds. These expenditures are reported as function expenditures on the budgetary statements.

Principal payments were \$14,416 and \$13,548 for fiscal years 2004 and 2003 respectively.

**HARDIN NORTHERN LOCAL SCHOOL DISTRICT
HARDIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED JUNE 30, 2004 AND 2003
(Continued)**

10. LONG-TERM OBLIGATIONS (Continued)

The following is a schedule of the future long-term minimum lease payments required under the capital leases and the present value of the minimum lease payments as of June 30, 2004.

Fiscal Year Ending June 30, 2005	<u>48,000</u>
Less Amount Representing Interest	<u>(2,888)</u>
Present Value of Net Minimum Lease Payments	<u>\$45,112</u>

Capital leases will be paid from the General Fund.

11. JOINTLY GOVERNED ORGANIZATIONS

A. Western Ohio Computer Organization

Western Ohio Computer Organization - The School District is a participant in the Western Ohio Computer Organization (WOCO). WOCO is an association of public school districts within the boundaries of Hardin, Auglaize, Shelby, Logan, Miami and Champaign Counties. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member districts. This organization is governed by a board of directors consisting of 14 members: the superintendent of the fiscal agent Shelby County Educational Service Center, two superintendents from each county that is represented, one treasurer representative from the school districts, student services representative from the school districts, and a non-voting independent district representative. The degree of control exercised by any participating school district is limited to its representation on the board. Financial information can be obtained from Sonny Ivey, who serves as director, at 129 East Court Street, Sidney, Ohio 45365.

B. Apollo Career Center

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

C. West Central Regional Professional Development Center

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

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

**HARDIN NORTHERN LOCAL SCHOOL DISTRICT
HARDIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED JUNE 30, 2004 AND 2003
(Continued)**

11. JOINTLY GOVERNED ORGANIZATIONS (Continued)

D. Hardin County Schools Consortium Local Professional Development Committee

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

E. Northwestern Ohio Educational Research Council, Inc.

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

F. West Central Ohio Special Education Regional Resource Center

The West Central Ohio Special Education Regional Resource Center (SERRC) is a special education service center which selects its own board, adopts its own budget and receives direct Federal and State grants for its operation. The jointly-governed organization was formed for the purpose of initiating, expanding and improving special education programs and services for children with disabilities and their parents. The SERRC is governed by a board of 52 members made up of the 50 superintendents of the participating districts, one non-public school, and Wright State University whose terms rotate every year. The degree of control exercised by any participating school district is limited to its representation on the Board. Financial information can be obtained by contacting Krista Hart, Treasurer, at the Hardin County Educational Service Center, 1211 W. Lima St., Suite A, Kenton, Ohio 43326-2385.

12. INSURANCE POOLS

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

The District participates in a group rating plan for workers' compensation as established under Section 4123.29 of the Ohio Revised Code. The Ohio School Boards Association Workers' Compensation Group Rating Plan (GRP) was established through the Ohio School Boards Association (OSBA) as an insurance purchasing pool.

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

**HARDIN NORTHERN LOCAL SCHOOL DISTRICT
HARDIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED JUNE 30, 2004 AND 2003
(Continued)**

12. INSURANCE POOLS (Continued)

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

The Hardin County School Employees' Health and Welfare Benefit Plan and Trust (the Trust) is a public entity shared risk pool consisting of six school districts, an educational service center, and a library. The Trust is organized as a Voluntary Employee Benefit Association under Section 501(c)(9) of the Internal Revenue Code and provides medical, dental, vision, and life insurance benefits to the employees of the participants. Each participant's superintendent is appointed to an Administrative Committee which advises the Trustee, Ohio Bank, concerning aspects of the administration of the Trust.

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

C. Schools of Ohio Schools Risk Sharing Authority (SORSA)

The District participates in the Schools of Ohio Risk Sharing Authority (SORSA), a protected self-insurance pool created and administered under the authority of Ohio Revised Code 2744. The SORSA is an incorporated nonprofit association of its members which enables the participants to provide for a formalized joint self-insurance pool and to assist members, including the District, to prevent and reduce losses and injuries to District property and persons and program for maintaining adequate insurance protection and provides risk management programs and other administrative services. Member contributions are based on actuarially determined rates and are allocated to a self-insurance pool (for claims and assessments), reinsurance coverage (for catastrophic losses), and a third party administrator (to handle claims and administrative expenses). The Third Party Administrator is Frank Gates Service Company. Financial information can be obtained from Ohio Schools Risk Sharing Authority, Inc., 655 Metro Place South, Suite 900, Dublin, Ohio 43017.

13. RELATED ORGANIZATION

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

**HARDIN NORTHERN LOCAL SCHOOL DISTRICT
HARDIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED JUNE 30, 2004 AND 2003
(Continued)**

14. SET ASIDE DISCLOSURE

The District is required by State statute to annually set aside, in the General Fund, an amount based on a statutory formula for the purchase of textbooks and other instructional materials, and an equal amount for the acquisition and construction of capital improvements. Amounts not spent by the end of the fiscal year or offset by similarly restricted resources received during the year must be held in cash at year end. These amounts must be carried forward and used for the same purposes in future years. In prior years, the District was also required to set aside money for budget stabilization. For fiscal years 2004 and 2003, only the portion of the budget stabilization from certain Bureau of Workers' Compensation refunds whose use is restricted by S.B. 345 continues to be set aside at fiscal year end.

The following cash basis information identifies the changes in the fund balance reserves for textbooks, capital improvements, and Bureau of Worker's Compensation refunds during fiscal year 2004.

	<u>Textbooks</u>	<u>Capital Improvements</u>	<u>Bureau of Worker's Compensation Refunds</u>
Balance June 30, 2003	\$206,992	\$59,658	\$17,316
Set aside requirements	71,046	71,046	
Offsets		(81,769)	
Qualifying Expenditures	(53,034)	(13,772)	
Balance June 30, 2004	<u>\$225,004</u>	<u>\$35,163</u>	<u>\$17,316</u>

The total reserve balance for the set asides at the end of the fiscal year was \$277,483.

The following cash basis information identifies the changes in the fund balance reserves for textbooks, capital improvements, and Bureau of Worker's Compensation refunds during fiscal year 2003.

	<u>Textbooks</u>	<u>Capital Improvements</u>	<u>Bureau of Worker's Compensation Refunds</u>
Balance June 30, 2002	\$176,315	\$87,627	\$17,316
Set aside requirements	73,653	73,653	
Offsets		(79,290)	
Qualifying Expenditures	(42,976)	(22,342)	
Balance June 30, 2003	<u>\$206,992</u>	<u>\$59,648</u>	<u>\$17,316</u>

The total reserve balance for the set asides at the end of the fiscal year was \$283,956.

15. STATE SCHOOL FUNDING DECISION

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

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

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

**HARDIN NORTHERN LOCAL SCHOOL DISTRICT
HARDIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED JUNE 30, 2004 AND 2003
(Continued)**

16. CONTINGENCIES

Grants

The District received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and 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 District at June 30, 2004.

17. SUBSEQUENT EVENT

Litigation

The District was party to litigation concerning employment of a former principal. The litigation has been resolved subsequent to June 30, 2004 (the latest financial statements) and prior to the date of this report. The resolution of the case did not have a material adverse effect on the overall financial position of the District at June 30, 2004.



Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

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

To the Board of Education:

We have audited the financial statements of the Hardin Northern Local School District, Hardin County (the "District"), as of and for the years ended June 30, 2004 and 2003, and have issued our report thereon dated February 10, 2005 wherein we noted that the District has prepared its financial statements on the basis of accounting previously prescribed by the Auditor of State which is a comprehensive basis of accounting other than the accounting principles generally accepted in the United States of America. Except as discussed above, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2004-001 through 2004-006. We also noted immaterial instances of noncompliance that we have reported to management of the District in a separate letter dated February 10, 2005.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting that we consider to be reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with management's assertions in the financial statements. A reportable condition is described in the accompanying schedule of findings as item 2004-007.

**Internal Control Over Financial Reporting
(Continued)**

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we do not believe the reportable condition described above is a material weakness. We also noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to the District's management in a separate letter dated February 10, 2005.

This report is intended for the information and use of management and the Board of Education, and is not intended to be and should not be used by anyone other than these specified parties.



Betty Montgomery
Auditor of State

February 10, 2005

**HARDIN NORTHERN LOCAL SCHOOL DISTRICT
HARDIN COUNTY**

**SCHEDULE OF FINDINGS
JUNE 30, 2004**

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

FINDING NUMBER 2004-001

Findings for Recovery / Repaid Under Audit

Teachers Supplemental Limited Contract dated June 17, 2002, which was amended by the Salary Notice, dated August 26, 2002, established the supplemental contract for Andrew Cano, as Head Baseball Coach, for the 2002 – 2003 school year at \$2,085. On the pay dates of April 11, 2003, April 25, 2003, May 9, 2003, May 23, 2003, June 6, 2003, and June 20, 2003 Andrew Cano was paid \$477.85 for a total of \$2,867(\$477.85 x 6). This resulted in an overpayment of \$782.

In accordance with the foregoing facts, and pursuant to Ohio Rev. Code Section 117.28, a Finding for Recovery for public money illegally expended is hereby issued against, Andrew Cano, and Wes Potter, Treasurer, and his bonding company Western Surety Company, jointly and severally, and in favor of the Hardin Northern Local School District, in the amount of \$782.

This finding for recovery was repaid through payroll withholdings from Andrew Cano and by a pay-in from Wes Potter on the following dates:

RECEIPT TYPE	DATE	AMOUNT
Payroll withholding	November 5, 2004	\$100
	November 19, 2004	50
	December 3, 2004	100
	December 17, 2004	50
	December 31, 2004	50
	January 14, 2005	50
	January 28, 2005	50
	February 11, 2005	200
Pay-in; Receipt # 933267	February 11, 2005	132
TOTAL		\$732

FINDING NUMBER 2004-002

Noncompliance

Ohio Rev. Code Section 117.38 provides that each public office shall file a financial report for each fiscal year. The Auditor of State may prescribe forms by rule or may issue guidelines, or both, for such reports. If the Auditor of State has not prescribed a rule regarding the form for the report, the public office shall submit its report on the form utilized by the public office. Ohio Administrative Code Section 117-2-03 further clarifies the requirements of Ohio Rev. Code Section 117.38.

Ohio Admin Code Section 117-2-03 (B) requires the District to prepare its annual financial report in accordance with generally accepted accounting principles. However, the District prepares its financial statements in accordance with standards established by the Auditor of State for governmental entities not required to prepare annual reports in accordance with generally accepted accounting principles. The accompanying financial statements omit assets, liabilities, fund equities, and disclosures that, while material, cannot be determined at this time. Pursuant to Ohio Rev. Code Section 117.38 the District may be fined and subject to various other administrative remedies for its failure to file the required financial report.

FINDING NUMBER 2004-003

Ohio Rev. Code Section 5705.36 allows subdivisions to request increased amended certificates of estimated resources and reduced amended certificates upon determination by the fiscal officer that revenue to be collected will be greater or less than the amount in the official certificate of estimated resources.

An increased amended certificate must be obtained from the budget commission if the legislative authority intends to appropriate and expend the excess revenue. A reduced amended certificate must be obtained if the amount of the deficiency will reduce available resources below the current level of appropriation.

To help provide the users with more meaningful financial statements, the District should prepare their financial statements according to generally accepted accounting principles.

The District did not obtain an amended certificate of estimated resources for the following funds that had actual revenues less than estimated revenues.

<u>Fund/SCC</u>	<u>Estimated Revenue</u>	<u>Revenue Received</u>	<u>Variance</u>
June 30, 2004			
572-9104	\$ 73,328	\$55,274	(\$18,054)
583-9002	94,072	83,417	(10,655)
583-9004	68,212	63,591	(4,621)
590-9104	25,954	15,303	(10,651)
599-9204	1,564	1,524	(40)
June 30, 2003			
573-9002	1,951	864	(1,087)
573-9003	12,894	2,651	(10,243)
590-9002	1,630	766	(864)
599-9203	2,185	1,675	(510)

Failure to amend the certificate of estimated resources when actual revenue falls short of expected (estimated) revenue could result in the District incurring expenditures in excess of revenues.

The District should implement monitoring procedures to help identify funds that have actual revenues less than estimated revenues.

FINDING NUMBER 2004-004

Ohio Rev. Code Section 5705.40 states that any appropriation measure may be amended or supplemented as long as the entity complies with the same provisions of the law as are used in making the original appropriation. Rulings filed in the case of C.B. Transportation, Inc. v. Butler County Board of Mental Retardation, 60 Ohio Misc. 71, 397 N.E. 2d 781 (C.P. 1979), as well as, Burkholder v. Lauber, 6 Ohio Misc 152 (1965), held that a board or officer whose judgment and discretion is required, was chosen because they were deemed fit and competent to exercise that judgment and discretion and unless power to substitute another in their place has been given, such board or officer cannot delegate these duties to another. Following such reasoning, a local government's governing board would be prohibited from delegating duties statutorily assigned to it, such as the ability to amend appropriations as provided for in Ohio Rev. Code Section 5705.40.

**FINDING NUMBER 2004-004
 (Continued)**

The Board delegated authority to the Treasurer to make appropriation modifications prior to obtaining Board approval. The Treasurer recorded appropriation modifications to the computerized accounting system one month prior to obtaining Board approval. As a result, appropriations recorded in the accounting system were not all approved at each fiscal year end.

The financial statements in this report have been adjusted to reflect the appropriations actually approved by the Board at the June 30, 2004 and 2003 year-ends. The following table identifies some of the more significant adjustments required to present the approved appropriations.

<u>Fund</u>	<u>Final Appropriations (Board Approved)</u>	<u>Final Appropriations (recorded)</u>	<u>Variance</u>
June 30, 2004			
001-1100-400-0000	\$313,948	\$341,448	\$27,500
001-2500-100-0000	43,000	68,000	25,000
001-2500-200-0000	23,650	34,700	11,050
001-2500-400-0000	60,625	20,625	(40,000)
003-1100-500-0000	545	19,097	18,552
003-2700-600-0000	56,125	75,765	19,640
573-1100-100-9004	(5)	12,995	13,000
590-7200-900-9002	0	11,412	11,412
590-1100-100-9103	0	12,276	12,276
590-7200-900-9104	0	11,000	11,000
June 30, 2003			
001-2500-100-0000	57,433	0	(57,433)
001-2500-200-0000	17,350	0	(17,350)
001-2500-400-0000	68,050	142,833	74,783
599-2200-400-9103	0	10,000	10,000

The Board should approve all appropriation modifications and adjustments prior to them being posted to the accounting system.

FINDING NUMBER 2004-005

Ohio Revised Code Section 5705.41(B) states that no subdivision or taxing unit is to expend money unless it has been appropriated. At June 30 2004 and 2003, the District had numerous violations of this requirement at their legal level of control which is the fund, function, object level. The more significant of these violations are as follows:

<u>Fund</u>	<u>Amount of Excess</u>
June 30, 2004	
001-1100-400-0000	\$23,431
001-1100-600-0000	10,905
573-9004	10,060
590-7200-900-9002	11,412
590-1100-100-9103	12,276
590-9103	11,700
590-7200-900-9104	10,339

**FINDING NUMBER 2004-005
(Continued)**

June 30, 2003

001-2500-400-0000	\$55,111
007-1100-800-9000	1,100
599-2200-400-9103	10,000
599-9103	20,630

The District should implement monitoring procedures to help ensure that expenditures do not exceed appropriations at the legal level of control.

FINDING NUMBER 2004-006

Ohio Rev. Code Section 5705.41 (D) states that no order or contracts involving the expenditure of money are to be made unless there is a certificate of the fiscal officer that the amount required for the order or contract has been lawfully appropriated and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrances.

The following exceptions to this basic requirement are provided by statute:

Then and Now Certificate: This exception provides that, if the fiscal officer can certify that both at the time that the contract or order was made and at the time that he is completing his certification, sufficient funds were available or in the process of collection, to the credit of a proper fund, properly appropriated and free from any previous encumbrance, the taxing authority can authorize the drawing of a warrant. The taxing authority has 30 days from the receipt of such certificate to approve payment by resolution or ordinance. If approval is not made within 30 days, there is no legal liability on the part of the subdivision or taxing district.

Amounts less than \$3,000 for school districts may be paid by the fiscal officer without such certificate of the taxing authority upon completion of the "then & now" certificate, provided that the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirement for approval of expenditures by the taxing authority.

Twenty-three percent of the transactions tested were not certified by the Treasurer prior to making orders for the expenditure of District funds. In addition, neither of the two exceptions above was utilized for these transactions. Procedures should be implemented not only to help ensure compliance with this requirement, but to help prevent the unauthorized obligation of District funds.

FINDING NUMBER 2004-007

Reportable Condition

Accountability for Student Managed Activities

To help assure the accountability over money collected and disbursed by student managed activities, a school district should have controls in place and procedures to monitor the effectiveness of these controls. The following deficiencies were identified in the District's student activity records:

**FINDING NUMBER 2004-007
(Continued)**

The Class of 2004(FY '03) did not maintain accurate records and inventory counts for candy sales; the Student with Learning Disabilities Club (FY '04) did not maintain accurate records and inventory counts for clothing sales, and the activity advisor disbursed cash collected from the sale of clothing to purchase student lunches during a field trip; and the Cheerleading (FY '04) did not maintain accurate records and inventory counts for the baked potato and taco-in-a-bag sales. In each of these instances, the failure to maintain accurate records and inventory counts could result in revenue being diverted for personal use without detection in the normal course of business.

The Author's Fund(FY '03) book sales, Yearbook and Ad sales (FY '04 and '03), and the Class of 2004 (FY '04) Senior Trip activities did not maintain all supporting documentation in their respective activity folders. The documentation that was not maintained in the activity folder was either kept at the advisor's home or another location and was provided for audit. The failure to maintain supporting documentation with the activity folders could result in the loss of these records.

A sales project potential form was not completed for the Author's Fund (FY '03) book sale, Yearbook and Ad sales (FY '04 and '03), and the Cheerleading (FY '04) baked potato & taco-in-a-bag sales. The failure to complete sales project potential forms reduces the District's ability to monitor fund raiser activity and increases the risk that revenue being diverted for personal use will not be detected in the normal course of business.

To help improve accountability over student activities and to help reduce the risk the risk that revenue is lost and/or misused the District should require the following for each of its student activities:

- A uniform detail journal, as prescribed by the Treasurer, should be maintained for each student activity. These journals should include all beginning and ending balances, receipts, and pay-ins, as well as reconciliation with the Treasurer's records.
- All source documents should be maintained such as duplicate pre-numbered receipts, ticket stubs, and any other supporting documentation in order to clearly substantiate amounts recorded in the detailed journals mentioned above. Deposits should clearly identify the amount of revenue for each sales project.
- Documents that identify to whom the merchandise was distributed for sale, the amounts collected and/or merchandise returned by each person, and any amount remaining uncollected. In addition, there should be a listing of merchandise remaining unsold, damaged, or lost. All revenues considered uncollectible should be listed.

In addition, sales project potential forms should be completed for all District fundraisers. The forms should show the expected profit of an event, how actual revenue to expected revenue at the completion of the project, and the reason(s) for any variance. In addition signature(s) should be included on the forms to indicate that the project has been reviewed and approved by someone other than the activity advisor. In addition the Board of Education should approve every fundraiser.

**HARDIN NORTHERN LOCAL SCHOOL DISTRICT
HARDIN COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2004 AND 2003**

<u>Finding Number</u>	<u>Finding Summary</u>	<u>Fully Corrected?</u>	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No <u>Longer Valid</u> ; <i>Explain:</i>
2002-10233-001	ORC Sec. 5705.39 - Appropriations in excess of Estimated Resources	No	Partially corrected. Repeated in management letter
2002-10233-002	ORC Sec. 5705.41(B) - Expenditures in excess of Appropriations	No	Repeated as finding 2004-005



**Auditor of State
Betty Montgomery**

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P.O. Box 1140
Columbus, Ohio 43216-1140
Telephone 614-466-4514
800-282-0370
Facsimile 614-466-4490

HARDIN NORTHERN LOCAL SCHOOL DISTRICT

HARDIN COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
APRIL 5, 2005**