

**NORTHMOR LOCAL
SCHOOL DISTRICT
MORROW COUNTY, OHIO**
*BASIC FINANCIAL STATEMENTS
(AUDITED)*

*FOR THE FISCAL YEAR ENDED
JUNE 30, 2004*

TINA GABLER, TREASURER



**Auditor of State
Betty Montgomery**

Board of Education
Northmor Local School District
5247 County Road 29
Galion, Ohio 44833

We have reviewed the Independent Auditor's Report of the Northmor Local School District, Morrow County, prepared by Trimble, Julian & Grube, Inc., for the audit period July 1, 2003 to June 30, 2004. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

Betty Montgomery

BETTY MONTGOMERY
Auditor of State

March 21, 2005

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**NORTHMOR LOCAL SCHOOL DISTRICT
MORROW COUNTY, OHIO**

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TRIMBLE, JULIAN & GRUBE, INC.

“SERVING OHIO LOCAL GOVERNMENTS”

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Independent Auditor's Report

Board of Education
Northmor Local School District
5247 County Road 29
Galion, OH 44833

We have audited the accompanying financial statements of the governmental activities, its major fund, and the aggregate remaining fund information of the Northmor Local School District, Morrow County, (the “District”), Ohio, as of and for the fiscal year ended June 30, 2004, which collectively comprise the District’s basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Northmor Local 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, its major fund, and the aggregate remaining fund information of the Northmor Local School District, Morrow County, Ohio, as of June 30, 2004, and the respective changes in financial position and the respective budgetary comparison for the General fund for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

As disclosed in Note 3 to the financial statements, the District implemented Governmental Accounting Standards Board (GASB) Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments, GASB Statement No. 37, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus, GASB Statement No. 38, Certain Financial Statement Note Disclosures, GASB Statement No. 39, Determining Whether Certain Organizations Are Component Units, GASB Interpretation No. 6 Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements, and GASB Statement No. 41, Budgetary Comparison Schedule - Perspective Differences for fiscal year ended June 30, 2004. In addition, capital assets have been restated due to changes in the District’s capital asset policy, the reclassification of proprietary fund capital assets and errors and omissions as disclosed in Note 8A.

Independent Auditor's Report
Northmor Local School District
Page Two

In accordance with *Government Auditing Standards*, we have also issued our report dated February 15, 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 grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion 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* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 3 through 12 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, which consisted principally of inquiries of management regarding the methods 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 District's basic financial statements. The accompanying schedule of receipts and expenditures of federal awards 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 Organizations*, and is not a required part of the basic financial statements of the District. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects in relation to the basic financial statements taken as a whole.



Trimble, Julian & Grube, Inc.
February 15, 2005

**NORTHMOR LOCAL SCHOOL DISTRICT
MORROW COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED**

The management's discussion and analysis of the Northmor Local School District's (the "District") financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2004. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review notes to the basic financial statements and financial statements to enhance their understanding of the District's financial performance.

Financial Highlights

Key financial highlights for 2004 are as follows:

- In total, net assets of governmental activities decreased \$514,736 which represents a 33.64% decrease from 2003.
- General revenues accounted for \$8,087,280 in revenue or 84.93% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$1,435,258 or 15.07% of total revenues of \$9,522,538.
- The District had \$10,037,274 in expenses related to governmental activities; \$1,435,258 of these expenses were offset by program specific charges for services and sales, grants or contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$8,087,280 were not adequate to provide for these programs.
- The District's only major governmental fund is the general fund. The general fund had \$8,518,612 in revenues and \$8,791,700 in expenditures and other financing uses. During fiscal year 2004, the general fund's fund balance decreased \$273,088 from \$188,887 to \$(84,201).

Using these Basic Financial Statements

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

The *Statement of Net Assets* and *Statement of Activities* provide information about the activities of the whole District, presenting both an aggregate view of the District's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the District's most significant funds with all other nonmajor funds presented in total in one column. In the case of the District, the general fund is by far the most significant fund, and the only governmental fund reported as a major fund.

**NORTHMOR LOCAL SCHOOL DISTRICT
MORROW COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED

Reporting the District as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains the large number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2004?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include *all assets and liabilities* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

In the Statement of Net Assets and the Statement of Activities, the Governmental Activities include the District's programs and services, including instruction, support services, operation and maintenance of plant, pupil transportation, extracurricular activities, and food service operations.

Reporting the District's Most Significant Funds

Fund Financial Statements

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

Governmental Funds

Most of the District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called *modified accrual* account, which measures cash and all other *financial assets* than can readily be converted to cash. The governmental fund financial statements provide a detailed *short-term* view of the District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental *activities* (reported in the Statement of Net Assets and the Statement of Activities) and governmental *funds* is reconciled in the basic financial statements.

**NORTHMOR LOCAL SCHOOL DISTRICT
MORROW COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED**

Reporting the District's Fiduciary Responsibilities

The District is the trustee, or fiduciary, for its scholarship programs. This activity is presented as a private purpose trust fund. The District also acts in a trustee capacity as an agent for individuals or other entities. These activities are reported in agency funds. All of the District's fiduciary activities are reported in separate Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets on pages 20 and 21. These activities are excluded from the District's other financial statements because the assets cannot be utilized by the District to finance its operations.

The District as a Whole

Recall that the Statement of Net Assets provides the perspective of the District as a whole. This is the first year for government-wide financial statements using the full accrual basis of accounting; therefore a comparison with prior years is not available. A comparative analysis will be provided in future years when prior year information is available.

The table below provides a summary of the District's net assets for 2004.

	Net Assets
	Governmental Activities <u>2004</u>
<u>Assets</u>	
Current and other assets	\$ 4,139,274
Capital assets, net	<u>1,721,030</u>
Total assets	<u>5,860,304</u>
<u>Liabilities</u>	
Current liabilities	4,032,496
Long-term liabilities	<u>812,351</u>
Total liabilities	<u>4,844,847</u>
<u>Net Assets</u>	
Invested in capital assets, net of related debt	1,721,030
Restricted	161,232
Unrestricted	<u>(866,805)</u>
Total net assets	<u>\$ 1,015,457</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2004, the District's assets exceeded liabilities by \$1,015,457. At fiscal year-end, restricted assets were \$161,232.

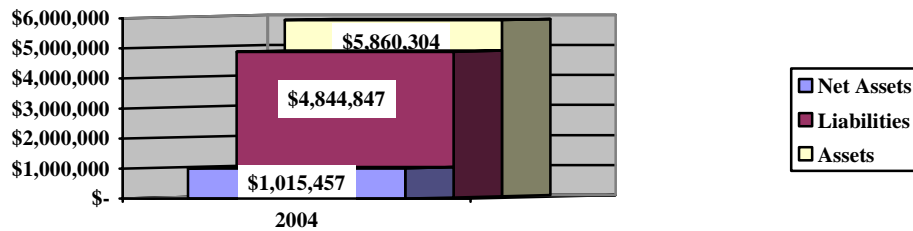
**NORTHMOR LOCAL SCHOOL DISTRICT
MORROW COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED**

At fiscal year-end, capital assets represented 29.37% of total assets. Capital assets include land, land improvements, buildings and improvements, furniture and equipment, and vehicles. Capital assets, net of related debt to acquire the assets at June 30, 2004, was \$1,721,030. These capital assets are used to provide services to the students and are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the District's net assets, \$161,232, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets is a deficit of \$866,805.

Governmental Activities



The table below shows the change in net assets for fiscal year 2004. Since this is the first year the District has prepared government-wide financial statements using the full accrual basis of accounting, revenue and expense comparisons to fiscal year 2003 are not available. A comparative analysis will be provided in future years when prior year information is available.

Change in Net Assets

	Governmental Activities 2004
<u>Revenues</u>	
Program revenues:	
Charges for services and sales	\$ 700,969
Operating grants and contributions	705,964
Capital grants and contributions	28,325
General revenues:	
Property and income taxes	3,059,563
Grants and entitlements	5,013,228
Investment earnings	6,396
Other	8,093
	<hr/>
Total revenues	9,522,538

**NORTHMOR LOCAL SCHOOL DISTRICT
MORROW COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED

	Governmental Activities <u>2004</u>
<u>Expenses</u>	
Program expenses:	
Instruction:	
Regular	\$ 4,242,988
Special	1,112,121
Vocational	228,871
Other	667,597
Support services:	
Pupil	241,845
Instructional staff	549,810
Board of education	18,027
Administration	858,861
Fiscal	218,036
Operations and maintenance	705,852
Pupil transportation	538,231
Central	7,697
Extracurricular activities	248,036
Food service operations	<u>399,302</u>
Total expenses	<u>10,037,274</u>
Decrease in net assets	<u>\$ (514,736)</u>

Governmental Activities

Net assets of the District's governmental activities decreased by \$514,736. Total governmental expenses of \$10,037,274 were offset by program revenues of \$1,435,258 and general revenues of \$8,087,280. Program revenues supported 14.3% of the total governmental expenses.

The primary sources of revenue for governmental activities are derived from property taxes, and grants and entitlements. These revenue sources represent 84.78% of total governmental revenue.

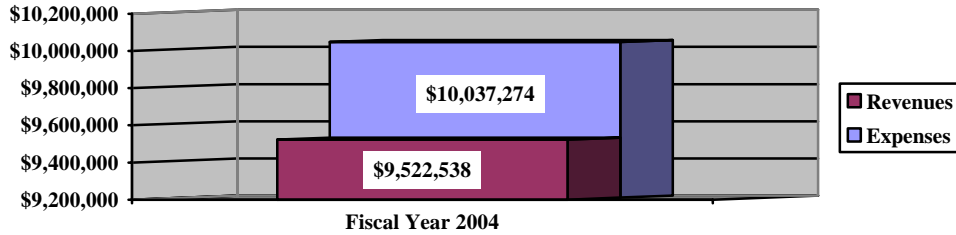
The largest expense of the District is for instructional programs. Instruction expenses totaled \$6,251,577 or 62.28% of total governmental expenses for fiscal year 2004.

**NORTHMOR LOCAL SCHOOL DISTRICT
MORROW COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED**

The graph below presents the District's governmental activities revenue and expenses for fiscal year 2004.

Governmental Activities - Revenues and Expenses



The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State grants and entitlements. Comparisons to 2003 have not been presented since they are not available.

Governmental Activities

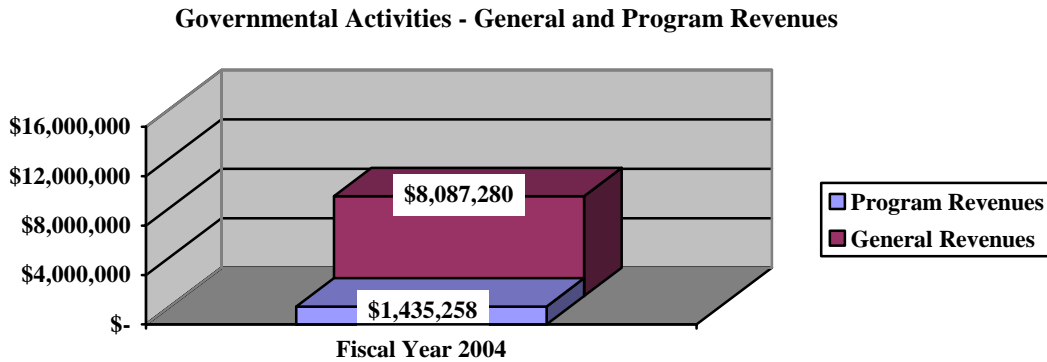
	Total Cost of Services 2004	Net Cost of Services 2004
Program expenses		
Instruction:		
Regular	\$ 4,242,988	\$ 3,662,563
Special	1,112,121	741,793
Vocational	228,871	228,871
Other	667,597	667,597
Support services:		
Pupil	241,845	224,663
Instructional staff	549,810	549,284
Board of education	18,027	18,027
Administration	858,861	857,272
Fiscal	218,036	213,292
Operations and maintenance	705,852	679,294
Pupil transportation	538,231	538,231
Central	7,697	4,524
Extracurricular activities	248,036	157,462
Food service operations	399,302	59,143
Total expenses	\$ 10,037,274	\$ 8,602,016

The dependence upon tax and other general revenues for governmental activities is apparent, 84.79% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 79.74%. The District's taxpayers, as a whole, are by far the primary support for District's students.

**NORTHMOR LOCAL SCHOOL DISTRICT
MORROW COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED

The graph below presents the District's governmental activities revenue for fiscal year 2004.



The District's Funds

The District's governmental funds reported a combined fund deficit of \$(25,482), which is lower than last year's total of \$177,058. The June 30, 2003 fund balances have been restated as described in Note 3A. to the basic financial statements. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2004 and 2003.

	Fund Balance June 30, 2004	(Restated) Fund Balance June 30, 2003	Increase (Decrease)	Percentage Change
General	\$ (84,201)	\$ 188,887	\$ (273,088)	(144.58)%
Other Governmental	58,719	(11,829)	70,548	596.4%
Total	<u>\$ (25,482)</u>	<u>\$ 177,058</u>	<u>\$ (202,540)</u>	(114.39)%

General Fund

The District's general fund balance decreased by \$273,088 (after a restatement to the June 30, 2003, fund balance which is detailed in Note 3A. to the basic financial statements). The decrease in fund balance can be attributed to several items related to decreasing revenues and increased expenditures. Expenditures exceed revenues for fiscal year 2004 by \$243,388. On March 3, 2004 the Governor of the State of Ohio issued an executive order to reduce funding to school districts to help offset the state's fiscal year deficit. The table that follows assists in illustrating the financial activities and fund balance of the general fund.

**NORTHMOR LOCAL SCHOOL DISTRICT
MORROW COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED

	<u>2004</u> <u>Amount</u>	<u>2003</u> <u>Amount</u>	<u>Increase</u> <u>(Decrease)</u>	<u>Percentage</u> <u>Change</u>
<u>Revenues</u>				
Taxes	\$ 3,100,068	\$ 3,092,042	\$ 8,026	0.26%
Tuition	364,164	-	364,164	100.00%
Earnings on investments	6,246	10,580	(4,334)	(40.96)%
Intergovernmental	5,013,228	4,762,421	250,807	4.27%
Other revenues	<u>34,906</u>	<u>62,625</u>	<u>(27,719)</u>	4.45%
 Total	 <u>\$ 8,518,612</u>	 <u>\$ 7,927,668</u>	 <u>\$ 590,944</u>	 7.45%
<u>Expenditures</u>				
Instruction	\$ 5,550,071	\$ 4,723,023	\$ 827,048	17.51%
Support services	3,052,881	3,054,225	(1,344)	(0.04)%
Extracurricular activities	<u>159,048</u>	<u>448,626</u>	<u>(289,578)</u>	(66.38)%
 Total	 <u>\$ 8,762,000</u>	 <u>\$ 8,225,874</u>	 <u>\$ 536,126</u>	 6.51%

The decrease in earnings and investments can be attributed to the declining interest rates. The increase in instruction expenditures is due to overall wage and benefit increases.

General Fund Budgeting Highlights

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

During the course of fiscal year 2004, the District amended its general fund budget several times. For the general fund, original budgeted revenues and other financing sources were \$8,373,225 and final budgeted revenues and other financing sources were \$8,377,725. Actual revenues and other financing sources for fiscal year 2004 was \$8,633,072. This represents a \$259,847 increase over original budgeted revenues.

General fund original and final appropriations (appropriated expenditures including other financing uses) were \$8,455,026. The actual budget basis expenditures for fiscal year 2004 totaled \$8,606,755, which is \$151,729 higher than the final budget appropriations.

**NORTHMOR LOCAL SCHOOL DISTRICT
MORROW COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2004, the District had \$1,721,030 invested in land, land improvements, buildings and improvements, furniture and equipment, and vehicles. See Note 8 to the basic financial statements for additional information. This entire amount is reported in governmental activities. The following table shows fiscal 2004 balances compared to 2003:

**Capital Assets at June 30
(Net of Depreciation)**

	Governmental Activities	
	2004	(Restated) 2003
Land	\$ 139,000	\$ 139,000
Land improvements	269,387	283,983
Building and improvements	944,500	773,026
Furniture and equipment	286,518	324,971
Vehicles	81,625	121,577
 Total	 \$ 1,721,030	 \$ 1,642,557

The overall increase in capital assets of \$78,473 is due to capital outlays of \$266,460 exceeding depreciation expense of \$187,987 in the fiscal year.

Debt Administration

At June 30, 2004, the District had no debt outstanding.

Current Financial Related Activities

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

The Board and administration closely monitor expenditures to stay in line with the five-year financial forecast. Cuts to operating budgets throughout the District have been employed during the past three years to avoid the need to seek additional money from the community. Rising health care insurance costs, fuel costs and teachers' salary increases have made the "balancing act" a difficult one.

The Board and the administration have continued to monitor the DeRolph Court Cases and the Supreme Court rulings closely. Throughout this period of time the District has maintained the hope that resolution to the state's school funding issues would bring relief. This is part of the reason that no additional tax dollars have been sought from the community. While it now appears that the state legislature will not act on the latest Supreme Court ruling of the school finance picture being unconstitutional, the Board still holds the hope that some form of resolution will be made.

**NORTHMOR LOCAL SCHOOL DISTRICT
MORROW COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED**

The District has experienced very little enrollment growth over the past five years. What growth has occurred has largely been offset by the loss of home school students. Another factor of student enrollment that has affected school funding is an increase in the number of students that are attending the vocational school.

The Ohio School Facility Commission currently places the District at 204 on their equity list. The District anticipates that it could be an additional four to five years before we would qualify for any state assistance in a building project. The District did enter into the Expedited Local Partnership Program and continues to monitor ways to lock in the state share at approximately 74%. This is difficult in that there is very limited money to be spent by the District for any kind of capital growth projects.

The District continues to closely monitor income amounts with the knowledge that growth will be experienced in property tax collections with the triennial re-evaluation. If the economy improves it is hoped that the income tax will surpass the current growth rate of $\frac{1}{4}$ of 1% per year. This revenue growth will have to be factored with the inevitability of rising operating costs in the future. The five-year forecast anticipates that the District will be able to stay in the black in the immediate future with careful financial budgeting. The goal of the District remains to provide the best possible education for the dollars available.

Contacting the 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 District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information contact Ms. Tina Gabler, Treasurer, Northmor Local School District, 5247 Co. Rd. 29, Galion, Ohio 44833.

**BASIC
FINANCIAL STATEMENTS**

**NORTHMOR LOCAL SCHOOL DISTRICT
MORROW COUNTY, OHIO**

STATEMENT OF NET ASSETS
JUNE 30, 2004

	Governmental Activities
Assets:	
Equity in pooled cash and cash equivalents . . .	\$ 198,335
Receivables:	
Taxes	3,803,120
Intergovernmental.	100,452
Accrued interest.	36
Prepayments	32,093
Materials and supplies inventory.	5,238
Capital assets:	
Land.	139,000
Depreciable capital assets, net.	1,582,030
Capital assets, net.	1,721,030
 Total assets.	 5,860,304
 Liabilities:	
Accounts payable.	12,682
Accrued wages and benefits	723,400
Pension obligation payable.	193,279
Intergovernmental payable	159,209
Deferred revenue	2,943,926
Long-term liabilities:	
Due within one year.	85,460
Due in more than one year	726,891
Total long-term liabilities.	812,351
Total liabilities	4,844,847
 Net Assets:	
Invested in capital assets, net of related debt.	1,721,030
Restricted for:	
Capital projects	5,418
Other purposes	155,814
Unrestricted.	(866,805)
Total net assets	\$ 1,015,457

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**NORTHMOR LOCAL SCHOOL DISTRICT
MORROW COUNTY, OHIO**

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental activities:					
Instruction:					
Regular	\$ 4,242,988	\$ 390,977	\$ 161,123	\$ 28,325	\$ (3,662,563)
Special	1,112,121	-	370,328	-	(741,793)
Vocational	228,871	-	-	-	(228,871)
Other	667,597	-	-	-	(667,597)
Support services:					
Pupil	241,845	-	17,182	-	(224,663)
Instructional staff	549,810	-	526	-	(549,284)
Board of education	18,027	-	-	-	(18,027)
Administration	858,861	-	1,589	-	(857,272)
Fiscal	218,036	-	4,744	-	(213,292)
Operations and maintenance	705,852	-	26,558	-	(679,294)
Pupil transportation	538,231	-	-	-	(538,231)
Central	7,697	-	3,173	-	(4,524)
Extracurricular activities	248,036	90,574	-	-	(157,462)
Food service operations	399,302	219,418	120,741	-	(59,143)
Total governmental activities	\$ 10,037,274	\$ 700,969	\$ 705,964	\$ 28,325	(8,602,016)

General Revenues:

Property and income taxes for:	
General purposes	3,059,563
Grants and entitlements not restricted to specific programs	5,013,228
Investment earnings	6,396
Miscellaneous	8,093
Total general revenues	8,087,280
 Change in net assets	 (514,736)
 Net assets at beginning of year (restated) .	 1,530,193
 Net assets at end of year	 \$ 1,015,457

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**NORTHMOR LOCAL SCHOOL DISTRICT
MORROW COUNTY, OHIO**

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2004

	General	Other Governmental Funds	Total Governmental Funds
Assets:			
Equity in pooled cash and cash equivalents	\$ 28,936	\$ 107,218	\$ 136,154
Receivables:			
Taxes.	3,803,120	-	3,803,120
Intergovernmental	-	100,452	100,452
Accrued interest	36	-	36
Interfund receivable	35,141	-	35,141
Advances to other funds.	8,900	-	8,900
Prepayments	32,093	-	32,093
Materials and supplies inventory	1,688	3,550	5,238
Restricted assets:			
Equity in pooled cash and cash equivalents	62,181	-	62,181
Total assets	\$ 3,972,095	\$ 211,220	\$ 4,183,315
Liabilities:			
Accounts payable	\$ 7,196	\$ 5,486	\$ 12,682
Accrued wages and benefits	640,292	83,108	723,400
Compensated absences payable	39,241	10,652	49,893
Pension obligation payable.	117,138	6,026	123,164
Intergovernmental payable.	156,021	3,188	159,209
Interfund payable.	-	35,141	35,141
Advances from other funds.	-	8,900	8,900
Deferred revenue.	3,096,408	-	3,096,408
Total liabilities	4,056,296	152,501	4,208,797
Fund Balances:			
Reserved for encumbrances	2,888	8,999	11,887
Reserved for materials and supplies inventory.	1,688	3,550	5,238
Reserved for prepayments	32,093	-	32,093
Reserved for property tax unavailable for appropriation	356,689	-	356,689
Reserved for school bus purchase	49,803	-	49,803
Reserved for textbooks.	12,378	-	12,378
Reserved for advances.	8,900	-	8,900
Unreserved, undesignated, (deficit) reported in:			
General fund	(548,640)	-	(548,640)
Special revenue funds.	-	40,752	40,752
Capital projects funds.	-	5,418	5,418
Total fund balances (deficit).	(84,201)	58,719	(25,482)
Total liabilities and fund balances	\$ 3,972,095	\$ 211,220	\$ 4,183,315

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**NORTHMOR LOCAL SCHOOL DISTRICT
MORROW COUNTY, OHIO**

RECONCILIATION OF TOTAL GOVERNMENTAL FUND DEFICIT TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2004

Total governmental fund deficit		\$ (25,482)
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		1,721,030
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		
Taxes		152,482
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.		
Compensated absences	762,458	
Pension obligation payable	<u>70,115</u>	
Total		<u>(832,573)</u>
Net assets of governmental activities		<u><u>\$ 1,015,457</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**NORTHMOR LOCAL SCHOOL DISTRICT
MORROW COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES (DEFICIT)
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:			
From local sources:			
Taxes	\$ 3,100,068	\$ -	\$ 3,100,068
Tuition.	364,164	-	364,164
Earnings on investments.	6,246	150	6,396
Charges for services	-	219,418	219,418
Extracurricular.	-	90,182	90,182
Classroom materials and fees.	25,118	-	25,118
Other local revenues.	9,788	3,392	13,180
Intergovernmental - State.	5,013,228	122,522	5,135,750
Intergovernmental - Federal	-	869,595	869,595
Total revenues	<u>8,518,612</u>	<u>1,305,259</u>	<u>9,823,871</u>
Expenditures:			
Current:			
Instruction:			
Regular	3,909,229	245,338	4,154,567
Special.	745,650	360,454	1,106,104
Vocational.	227,595	-	227,595
Other.	667,597	-	667,597
Support services:			
Pupil.	218,317	21,415	239,732
Instructional staff	543,260	501	543,761
Board of education	18,751	-	18,751
Administration.	820,851	1,796	822,647
Fiscal	208,454	7,605	216,059
Operations and maintenance.	748,348	153,004	901,352
Pupil transportation	494,900	-	494,900
Central.	-	7,697	7,697
Extracurricular activities.	159,048	80,756	239,804
Food service operations	-	385,845	385,845
Total expenditures	<u>8,762,000</u>	<u>1,264,411</u>	<u>10,026,411</u>
Excess of revenues over/ (under) expenditures	<u>(243,388)</u>	<u>40,848</u>	<u>(202,540)</u>
Other financing sources (uses):			
Transfers in.	-	29,700	29,700
Transfers (out)	(29,700)	-	(29,700)
Total other financing sources (uses)	<u>(29,700)</u>	<u>29,700</u>	<u>-</u>
Net change in fund balances	(273,088)	70,548	(202,540)
Fund balances (deficit) at beginning of year (restated)	<u>188,887</u>	<u>(11,829)</u>	<u>177,058</u>
Fund balances (deficit) at end of year.	<u><u>\$ (84,201)</u></u>	<u><u>\$ 58,719</u></u>	<u><u>\$ (25,482)</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**NORTHMOR LOCAL SCHOOL DISTRICT
MORROW COUNTY, OHIO**

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

Net change in fund balances - total governmental funds	\$ (202,540)
<i>Amounts reported for governmental activities in the statement of activities are different because:</i>	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays of \$266,460 exceeds depreciation expense of \$187,987 in the current period.	78,473
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	(301,333)
Some expenses reported in the statement of activities, such as compensated absences and pension obligations, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.	<u>(89,336)</u>
Change in net assets of governmental activities	<u><u>\$ (514,736)</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**NORTHMOR LOCAL SCHOOL DISTRICT
MORROW COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
From local sources:				
Taxes	\$ 3,107,012	\$ 3,108,682	\$ 3,203,432	\$ 94,750
Tuition.	353,203	353,393	364,164	10,771
Earnings on investments.	6,151	6,154	6,342	188
Classroom materials and fees	24,362	24,375	25,118	743
Other local revenues	9,493	9,498	9,788	290
Intergovernmental - State	4,862,335	4,864,948	5,013,228	148,280
Total revenues	<u>8,362,556</u>	<u>8,367,050</u>	<u>8,622,072</u>	<u>255,022</u>
Expenditures:				
Current:				
Instruction:				
Regular	3,814,511	3,816,903	3,767,374	49,529
Special.	629,406	627,195	745,784	(118,589)
Vocational.	210,808	210,808	210,897	(89)
Other.	532,585	532,585	667,597	(135,012)
Support services:				
Pupil.	212,515	212,515	217,802	(5,287)
Instructional staff	548,749	548,749	543,334	5,415
Board of education	20,685	20,685	16,082	4,603
Administration.	814,973	814,973	804,557	10,416
Fiscal	204,953	204,953	204,611	342
Operations and maintenance.	774,984	774,803	742,930	31,873
Pupil transportation	494,422	494,422	497,012	(2,590)
Extracurricular activities.	166,435	166,435	159,075	7,360
Total expenditures	<u>8,425,026</u>	<u>8,425,026</u>	<u>8,577,055</u>	<u>(152,029)</u>
Excess of revenues over (under) expenditures.	<u>(62,470)</u>	<u>(57,976)</u>	<u>45,017</u>	<u>102,993</u>
Other financing sources (uses):				
Transfers (out)	(30,000)	(30,000)	(29,700)	300
Advances in.	10,669	10,675	11,000	325
Advances (out)	-	-	(35,140)	(35,140)
Total other financing sources (uses)	<u>(19,331)</u>	<u>(19,325)</u>	<u>(53,840)</u>	<u>(34,515)</u>
Net change in fund balance	(81,801)	(77,301)	(8,823)	68,478
Fund balance at beginning of year.	89,135	89,135	89,135	-
Prior year encumbrances appropriated	3,792	3,792	3,792	-
Fund balance at end of year	<u>\$ 11,126</u>	<u>\$ 15,626</u>	<u>\$ 84,104</u>	<u>\$ 68,478</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**NORTHMOR LOCAL SCHOOL DISTRICT
MORROW COUNTY, OHIO**

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUND
JUNE 30, 2004

	Private-Purpose Trust	
	Scholarship	Agency
Assets:		
Equity in pooled cash and cash equivalents	\$ 4,232	\$ 22,735
Total assets.	4,232	22,735
Liabilities:		
Accounts payable.	-	100
Due to students	-	22,635
Total liabilities	-	\$ 22,735
Net Assets:		
Held in trust for scholarships	4,232	
Total net assets	\$ 4,232	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**NORTHMOR LOCAL SCHOOL DISTRICT
MORROW COUNTY, OHIO**

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	Private-Purpose Trust
	Scholarship
Additions:	
Interest	\$ 503
Total additions.	503
Deductions:	
Scholarships awarded	400
Change in net assets	103
Net assets at beginning of year	4,129
Net assets at end of year.	\$ 4,232

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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**NORTHMOR LOCAL SCHOOL DISTRICT
MORROW COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT

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

The District ranks as the 426th largest by total enrollment among the 613 public school districts in the state. Average daily membership as of June 30, 2004 was 1,243. The District employed 90 certified employees and 47 non-certified employees.

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

The reporting entity has been defined in accordance with GASB Statement No. 14, "The Financial Reporting Entity" as amended by GASB Statement No. 39, "Determining Whether Certain Organizations Are Component Units". The reporting entity is composed of the primary government, component units and other organization that are included to ensure that the basic financial statements of the District are not misleading. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the District. For the District, this includes general operations, food services, 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 organizations' government board and (1) the District is able to significantly influence the programs or services performed or provided by the organization; or (2) the District is legally entitled to or can otherwise access the organization's resources; or (3) the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or (4) the District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the District in that the District approves the budget, the issuance of debt or the levying of taxes. Based upon the application of this criteria, the District has no component units. The basic financial statements of the reporting entity include only those of the District (the primary government). The following organizations are described due to their relationship to the District:

**NORTHMOR LOCAL SCHOOL DISTRICT
MORROW COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

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

JOINTLY GOVERNED ORGANIZATIONS

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

The COG is a jointly governed organization among 24 school districts and 1 county educational service center. The COG was formed for the purpose of applying modern technology with the aid of computers and other electronic technology to administrative and instructional functions. Each member district supports the COG based on a per pupil charge, dependent upon the software package utilized. The COG is governed by a Board of Directors consisting of superintendents of the member school districts. The degree of control exercised by any school district is limited to its representation on the Board. In accordance with GASB Statement No. 14, the District does not have any equity interest in the COG. Financial information can be obtained from the treasurer for the Pioneer Career and Technology Center, who serves as fiscal agent for the COG, at 27 Ryan Road, Shelby, Ohio 44875-0309.

The Work Force Preparation Regional Council of Governments

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

RELATED ENTITY

Perry Cook Memorial Library (the "Library")

The District appoints the governing board of the Library, however, the District cannot influence the Library's operation nor does the Library represent a potential financial benefit for or burden on the District. The District serves in a ministerial capacity as taxing authority for the Library. Once the Library Board determines to present a levy to the voters, including the determination of its rate and duration, the District must place the levy on the ballot. The Library may not issue debt. The Library did not receive any funding from the District during 2004.

INSURANCE PURCHASING POOL

Ohio School Boards Association Workers' Compensation Group Rating Plan

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

**NORTHMOR LOCAL SCHOOL DISTRICT
MORROW COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

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

Ohio School Plan

The District participates in the Ohio School Plan (OSP), an insurance purchasing pool. The OSP is created and organized pursuant to and as authorized by Section 2744.081 of the 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 the OSP and member schools.

B. Fund Accounting

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

GOVERNMENTAL FUNDS

Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following is the District's major governmental fund:

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

Other governmental funds of the District are used to account for (a) the accumulation of resources for, and payment of, general long-term debt principal, interest and related costs; (b) financial resources to be used for the acquisition, construction, or improvement of capital facilities other than those financed by proprietary and trust funds; and (c) for grants and other resources whose use is restricted to a particular purpose.

PROPRIETARY FUND

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

**NORTHMOR LOCAL SCHOOL DISTRICT
MORROW COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

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

FIDUCIARY FUNDS

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

C. Basis of Presentation and Measurement Focus

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

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the governmental activities of the District. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include amounts paid by the recipient of goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues not classified as program revenues are presented as general revenues of the District.

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

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

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

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

**NORTHMOR LOCAL SCHOOL DISTRICT
MORROW COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

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

D. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Fiduciary funds also use the accrual basis of accounting.

Revenues - Exchange and Non-exchange Transactions - Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within sixty days of fiscal year-end.

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (see Note 6).

Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

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

Deferred Revenue - Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Property taxes for which there is an enforceable legal claim as of June 30, 2004, but which were levied to finance fiscal year 2005 operation, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

On governmental fund financial statements, receivables that will not be collected within the available period have also been reported as deferred revenue.

Expenses/Expenditures - On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported in the Statement of Revenues, Expenditures and Changes in Fund Balances as an expenditure with a like amount reported as intergovernmental revenue.

**NORTHMOR LOCAL SCHOOL DISTRICT
MORROW COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

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

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocation of cost, such as depreciation and amortization, are not recognized in governmental funds.

E. Budgets

The District is required by state statute to adopt an annual appropriated cash basis budget for all funds. The specific timetable for fiscal year 2004 is as follows:

1. Prior to January 15 of the preceding year, the Superintendent and Treasurer submit to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing for all funds. Public hearings are publicized and conducted to obtain taxpayers' comments. The expressed purpose of this budget document is to reflect the need for existing (or increased) tax rates.
2. By no later than January 20, the board-adopted budget is filed with the Morrow County Budget Commission for tax rate determination.
3. Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the Commission's Certificate of Estimated Resources which states the projected revenue of each fund. Prior to 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 a basis for the appropriation measure. On or about July 1, the Certificate is amended to include any unencumbered balances from the preceding year as reported by the District Treasurer. The Certificate may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The budget figures, as shown in the accompanying budgetary statement, reflect the amounts set forth in the original and final Amended Certificates issued for fiscal year 2004.
4. By July 1, the annual appropriation resolution is legally enacted by the Board of Education at the fund level of expenditures, which is the legal level of budgetary control. State statute permits a temporary appropriation to be effective until no later than October 1 of each year. Although the legal level of budgetary control was established at the fund level of expenditures, the District has elected to present budgetary statement comparisons at the fund and function level of expenditures. Resolution appropriations by fund must be within the estimated resources as certified by the County Budget Commission and the total of expenditures and encumbrances may not exceed the appropriation totals.
5. Any revisions that alter the total of any fund appropriations must be approved by the Board of Education.
6. Formal budgetary integration is employed as a management control device during the year for all funds consistent with the general obligation bond indenture and other statutory provisions.

**NORTHMOR LOCAL SCHOOL DISTRICT
MORROW COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

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

7. Appropriations amounts are as originally adopted, or as amended by the Board of Education through the year by supplemental appropriations, which either reallocated or increased the original appropriated amounts. The budget figures, as shown in the accompanying budgetary statement, reflect the original and final appropriation amounts including all amendments and modifications.
8. Unencumbered appropriations lapse at fiscal year-end. Encumbered appropriations are carried forward to the succeeding fiscal year and need not be reappropriated. Expenditures may not legally exceed budgeted appropriations at the fund, function and object level.
9. Encumbrance accounting is utilized with District funds in the normal course of operations, for purchase orders and contract related expenditures. An encumbrance is a reserve on the available spending authority due to commitment for a future expenditure and does not represent a liability. For governmental fund types, encumbrances outstanding at year-end appear as a reserve to the fund balance on a GAAP basis and as the equivalent of expenditures on a non-GAAP budgetary basis in order to demonstrate legal compliance. Note 15 provides a reconciliation of the budgetary and GAAP basis of accounting for the General fund.

F. Cash and Investments

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

During fiscal year 2004, investments were limited to STAR Ohio, repurchase agreements, and a certificate of deposit. Except for nonparticipating investment contracts, investments are reported at fair value, which is based on quoted market prices. Nonparticipating investment contracts such as repurchase agreements are reported at cost.

The District has invested funds in STAR Ohio during fiscal 2004. STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the state to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on June 30, 2004.

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund. By policy of the Board of Education, investment earnings are assigned to the general fund and the private purpose trust funds. Interest revenue credited to the general fund during fiscal year 2004 amounted to \$6,246, which includes \$3,999 assigned from other funds.

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

**NORTHMOR LOCAL SCHOOL DISTRICT
MORROW COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

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

An analysis of the Treasurer’s investment account at fiscal year-end is provided in Note 4.

G. Inventory

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

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

H. Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary fund. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. During fiscal year 2004, the District increased its capitalization threshold from \$500 to \$2,500. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset’s life are not. The District does not possess infrastructure.

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

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

I. Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as “interfund receivables/payables.” These amounts are eliminated in the governmental activities column on the statement of net assets. Long-term interfund loans that will not be repaid within the next fiscal year are shown as reservations of fund balances on the balance sheet because they are not spendable, available resources. The District had long-term advances receivable and payable at June 30, 2004.

**NORTHMOR LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

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

J. Compensated Absences

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

In accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences", a liability for vacation leave is accrued if a) the employees' rights to payment are attributable to services already rendered; and b) it is probable that the employer will compensate the employees for the benefits through paid time off or other means, such as cash payment at termination or retirement. A liability for severance is accrued using the vesting method; i.e., the liability is based on the sick leave accumulated at June 30, 2004, by those employees who are currently eligible to receive termination (severance) payments, as well as those employees expected to become eligible in the future. For purposes of establishing a liability for severance on employees expected to become eligible to retire in the future, all employees with at least ten years of service were considered expected to become eligible to retire in accordance with GASB Statement No. 16.

The total liability for vacation and severance payments has been calculated using pay rates in effect at June 30, 2004, and reduced to the maximum payment allowed by labor contract and/or statute, plus any applicable additional salary related payments.

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

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

K. Accrued Liabilities and Long-Term Obligations

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

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

L. Fund Balance Reserves

The District reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves have been established for encumbrances, materials and supplies inventory, prepayments, advances, school bus purchase, textbooks, and property tax revenue unavailable for appropriation. The reserve for property taxes unavailable for appropriation represents taxes recognized as revenue under GAAP but not available for appropriation under state statute.

**NORTHMOR LOCAL SCHOOL DISTRICT
MORROW COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

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

M. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consist of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

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

N. Prepayments

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

O. Estimates

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

P. Restricted Assets

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

Q. Interfund Activity

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

R. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal year 2004.

**NORTHMOR LOCAL SCHOOL DISTRICT
MORROW COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Changes in Accounting Principles and Restatement of Fund Balance

For fiscal year 2004, the District has implemented GASB Statement No. 34, "Basic Financial Statements and Management's Discussion and Analysis - for State and Local Governments", GASB Statement No. 37, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus", GASB Statement No. 38, "Certain Financial Statement Note Disclosures", GASB Statement No. 39, "Determining Whether Certain Organizations are Component Units", GASB Statement No. 41, "Budgetary Comparison Schedule - Perspective Differences", and GASB Interpretation No. 6, "Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements". At June 30, 2003, there was no effect on fund balance as a result of implementing GASB Statements Nos. 37, 38 , 39 and 41.

GASB Statement No. 37 clarifies certain provisions of Statement No. 34, including the required content of the Management Discussion and Analysis, the classification of program revenues and the criteria for determining major funds. GASB Statement No. 38, modifies, establishes and rescinds certain financial statement note disclosures. GASB Statement No. 39 further defines the guidelines of GASB Statement No. 14, "The Financial Reporting Entity."

GASB Statement No. 41 allows the presentation of budgetary schedules as required supplementary information based on the fund, organization or program structure that the government uses for its legally adopted budget when significant budgetary perspective differences result in the school district not being able to present budgetary comparison for the general and each major special revenue fund.

GASB Interpretation No. 6 clarifies the application of standards for modified accrual recognition of certain liabilities and expenditures in areas where differences have arisen, or potentially could arise, in interpretation and practice.

The government-wide financial statements show the District's programs for governmental activities. The beginning net asset amount for governmental activities reflects the change in fund balance for governmental funds at June 30, 2003, caused by the conversion to the accrual basis of accounting.

Governmental Activities - Fund Reclassification and Restatement of Fund Balance - Certain funds have been reclassified to properly reflect their intended purpose in accordance with the Standards of GASB Statement No. 34.

The fund reclassifications had the following effect on the District's governmental fund balances as previously reported:

	<u>General</u>	<u>Nonmajor</u>	<u>Total</u>
Fund balance June 30, 2003	\$ 188,887	\$ 23,751	\$ 212,638
Fund reclassifications	-	(35,580)	(35,580)
Restated fund balance, June 30, 2003	<u>\$ 188,887</u>	<u>\$(11,829)</u>	<u>\$ 177,058</u>

**NORTHMOR LOCAL SCHOOL DISTRICT
MORROW COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

The transition from governmental fund balance to net assets of the governmental activities is presented as follows:

	<u>Total</u>
Restated fund balance, June 30, 2003	\$ 177,058
GASB 34 adjustments:	
Long-term (deferred) assets	453,795
Capital assets	1,642,557
Pension obligation	(36,462)
Compensated absences	(706,755)
Governmental activities net assets, June 30, 2003	<u>\$ 1,530,193</u>

B. Deficit Fund Balances

Fund balances at June 30, 2004 included the following individual fund deficits:

	<u>Deficit</u>
<u>Major Fund</u>	
General	\$ 84,201
<u>Nonmajor Funds</u>	
Food Service	51,386
Uniform School Supplies	180
Disadvantaged Pupil Impact Aid	66
Title I	41,047

These funds complied with Ohio state law, which does not permit a cash basis deficit at fiscal year-end. The general fund is liable for any deficits in these funds and provides transfers when cash is required, not when accruals occur. The deficit fund balances results from adjustments for accrued liabilities.

C. Compliance

The following funds had expenditures in excess of appropriations contrary to Section 5705.41(B), Ohio Revised Code:

	<u>Excess</u>
<u>Major Fund</u>	
General Fund	\$ 151,729
<u>Nonmajor Funds</u>	
Food Service	8,400
Management Information System	3,000
Athletics	27,709

**NORTHMOR LOCAL SCHOOL DISTRICT
MORROW COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

NOTE 4 - EQUITY IN POOLED CASH AND CASH EQUIVALENTS

The District maintains a cash and investment pool used by all funds. Each fund type's portion of this pool is displayed on the financial statements as "Equity in Pooled Cash and Cash Equivalents". Statutes require the classification of monies held by the District into three categories.

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

Inactive deposits are public deposits 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 accounts, including passbook accounts.

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

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal or interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2% 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;
6. The State Treasury Asset Reserve of Ohio (STAR Ohio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed 180 days in an amount not to exceed 25% of the interim monies available for investment at any one time; and

**NORTHMOR LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 4 - EQUITY IN POOLED CASH AND CASH EQUIVALENTS - (Continued)

8. Under limited circumstances, corporate debt instrument rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are 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 qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

Cash on Hand: At fiscal year-end, the District had \$200 in undeposited cash on hand which is included on the financial statements as part of "Equity in Pooled Cash and Cash Equivalents".

The following information classifies deposits and investments by categories of risk as defined in GASB Statement No. 3, "Deposits with Financial Institutions, Investments (Including Repurchase Agreements) and Reverse Repurchase Agreements".

Deposits: At fiscal year-end, the carrying amount of the District's deposits was \$58,545 and the bank balance was \$141,200 (including \$5,792 in certificates of deposit). Of the bank balance:

1. \$105,290 was covered by federal deposit insurance; and
2. \$35,910 was uninsured and unregistered as defined by GASB although it was secured by collateral held by third party trustees, pursuant to section 135.181 Ohio Revised Code, in collateralized pools securing all public funds on deposit with specific depository institutions; these securities not being in the name of the District. Although 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 FDIC.

Collateral is required for demand deposits and certificates of deposit in excess of all deposits not covered by federal depository insurance. Obligations that may be pledged as collateral are obligations of the United States and its agencies, obligations of the State of Ohio and its municipalities, and obligations of the other states. Obligations pledged to secure deposits must be delivered to a bank other than the institution in which the deposit is made. Written custodial agreements are required.

Investments: The District's investments are categorized below to give an indication of the level of custodial credit risk assumed by the entity at fiscal year-end. Category 1 includes investments that are insured or registered or securities held by the District. Category 2 includes uninsured and unregistered investments for which the securities 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, but not in the District's name. Investments in STAR Ohio are not categorized as they are not evidenced by securities that exist in physical or book entry form.

**NORTHMOR LOCAL SCHOOL DISTRICT
MORROW COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 4 - EQUITY IN POOLED CASH AND CASH EQUIVALENTS - (Continued)

	<u>Category</u> 3	<u>Reported</u> <u>Amount</u>	<u>Fair</u> <u>Value</u>
Repurchase agreement	<u>\$ 124,521</u>	\$ 124,521	\$ 124,521
	<u>\$ 124,521</u>		
Investment in STAR Ohio		<u>42,036</u>	<u>42,036</u>
Total investments		<u>\$ 166,557</u>	<u>\$ 166,557</u>

The classification of cash and cash equivalents and investments on the basic financial statements is based on criteria set forth in GASB Statement No. 9. A reconciliation between the classifications of cash and investments on the basic financial statements and the classification per GASB Statement No. 3 is as follows:

	<u>Cash and Cash</u> <u>Equivalents/Deposits</u>	<u>Investments</u>
GASB Statement No. 9	\$ 225,302	\$ -
Investments of the cash management pool:		
Investment in STAR Ohio	(42,036)	42,036
Repurchase agreement	(124,521)	124,521
Cash on hand	<u>(200)</u>	<u>-</u>
GASB Statement No. 3	<u>\$ 58,545</u>	<u>\$ 166,557</u>

NOTE 5 - INTERFUND TRANSACTIONS

- A. Interfund balances at June 30, 2004 as reported on the fund statements, consist of the following individual interfund loans receivable and payable:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Nonmajor governmental funds	\$ 35,141

The primary purpose of the interfund balances is to cover costs in specific funds where revenues were not received by June 30. These interfund balances will be repaid once the anticipated revenues are received. All interfund balances are expected to be repaid within one year.

Interfund balances between governmental funds are eliminated on the government-wide financial statements; therefore, no internal balances at June 30, 2004 are reported on the statement of net assets.

**NORTHMOR LOCAL SCHOOL DISTRICT
MORROW COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 5 - INTERFUND TRANSACTIONS - (Continued)

- B.** Long-term interfund balances at June 30, 2004 as reported on the fund statements, consist of the following individual advances to and from other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Nonmajor governmental funds	\$ 8,900

The primary purpose of the interfund balances is to cover costs in specific funds where revenues were not received by June 30. These interfund balances will be repaid once the anticipated revenues are received.

Interfund balances between governmental funds are eliminated on the government-wide financial statements; therefore, no internal balances at June 30, 2004 are reported on the statement of net assets.

- C.** Interfund transfers for the year ended June 30, 2004, consisted of the following, as reported on the fund financial statements:

Transfers to Nonmajor Governmental funds from:	<u>Amount</u>
General Fund	\$ 29,700

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, and (2) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

Interfund transfers between governmental funds are eliminated for reporting in the statement of activities.

NOTE 6 - PROPERTY TAXES

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

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the District. Real property tax revenue received in calendar 2004 represents collections of calendar year 2003 taxes. Real property taxes received in calendar year 2004 were levied after April 1, 2003, on the assessed value listed as of January 1, 2003, the lien date. Assessed values for real property taxes are established by state law at thirty-five percent of appraised market 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 alternate payment dates to be established.

Public utility property tax revenue received in calendar 2004 represents collections of calendar year 2003 taxes. Public utility real and tangible personal property taxes received in calendar year 2004 became a lien December 31, 2002, were levied after April 1, 2003 and are collected in 2004 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

**NORTHMOR LOCAL SCHOOL DISTRICT
MORROW COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 6 - PROPERTY TAXES - (Continued)

Tangible personal property tax revenue received during calendar 2004 (other than public utility property) represents the collection of 2004 taxes. Tangible personal property taxes received in calendar year 2004 were levied after April 1, 2004, on the value as of December 31, 2003. Tangible personal property is currently assessed at twenty-five percent of true value for capital assets and twenty-four percent of true value for inventory. Payments 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. Tangible personal property taxes paid by April 30 are usually received by the District prior to June 30.

The District receives property taxes from Morrow County. The County Auditor periodically advances 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 tax bills are sent.

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2004 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year-end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue.

The amount available as an advance at June 30, 2004 was \$356,689 in the general fund. This amount has been recorded as revenue. The amount available as an advance at June 30, 2003 was \$417,993 in the general fund.

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

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

	2003 Second Half Collections		2004 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and other real estate	\$ 95,166,300	86.49	\$ 99,531,910	87.50
Public utility personal	11,409,350	10.36	11,413,980	10.03
Tangible personal property	<u>3,450,950</u>	<u>3.15</u>	<u>2,813,920</u>	<u>2.47</u>
Total	<u>\$ 110,026,600</u>	<u>100.00</u>	<u>\$ 113,759,810</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation	\$ 27.40		\$ 27.40	

**NORTHMOR LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 7 - RECEIVABLES

Receivables at June 30, 2004 consisted of taxes, interest, and intergovernmental grants and entitlements. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of state programs and the current year guarantee of federal funds. A summary of the principal items of receivables reported on the statement of net assets follows:

Governmental Activities:

Property taxes	\$ 3,803,120
Accrued interest	36
Intergovernmental	<u>100,452</u>
Total	<u>\$ 3,903,608</u>

Receivables have been disaggregated on the face of the basic financial statements. All receivables are expected to be collected within subsequent years.

NOTE 8 - CAPITAL ASSETS

- A. The capital asset balances of the governmental activities have been restated due to changes in the District's capital asset policy, reclassification of proprietary funds, and errors and omissions. See Note 2H. for detail:

	Balance <u>6/30/03</u>	<u>Adjustments</u>	Restated Balance <u>6/30/03</u>
Governmental Activities			
Capital assets, not being depreciated:			
Land	\$ 139,000	\$ -	\$ 139,000
Total capital assets, not being depreciated	<u>139,000</u>	<u>-</u>	<u>139,000</u>
Capital assets, being depreciated:			
Land improvements	400,083	(3,868)	396,215
Buildings and improvements	2,512,059	(202,210)	2,309,849
Furniture and equipment	1,698,947	(977,443)	721,504
Vehicles	<u>959,857</u>	<u>(177,161)</u>	<u>782,696</u>
Total capital assets, being depreciated	<u>5,570,946</u>	<u>(1,360,682)</u>	<u>4,210,264</u>
<i>Less: accumulated depreciation:</i>	<u>-</u>	<u>(2,706,707)</u>	<u>(2,706,707)</u>
Governmental activities capital assets, net	<u>\$ 5,709,946</u>	<u>\$ (4,067,389)</u>	<u>\$ 1,642,557</u>

**NORTHMOR LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 8 - CAPITAL ASSETS - (Continued)

B. Capital asset activity for the fiscal year ended June 30, 2004, was as follows:

	Restated Balance <u>06/30/03</u>	<u>Additions</u>	<u>Deductions</u>	Balance <u>06/30/04</u>
Governmental Activities				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 139,000	\$ -	\$ -	\$ 139,000
Total capital assets, not being depreciated	<u>139,000</u>	<u>-</u>	<u>-</u>	<u>139,000</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	396,215	-	-	396,215
Buildings and improvements	2,309,849	213,209	-	2,523,058
Furniture and equipment	721,504	53,251	-	774,755
Vehicles	782,696	-	-	782,696
Total capital assets, being depreciated	<u>4,210,264</u>	<u>266,460</u>	<u>-</u>	<u>4,476,724</u>
<i>Less: accumulated depreciation</i>				
Land improvements	(112,232)	(14,596)	-	(126,828)
Buildings and improvements	(1,536,823)	(41,735)	-	(1,578,558)
Furniture and equipment	(396,533)	(91,704)	-	(488,237)
Vehicles	(661,119)	(39,952)	-	(701,071)
Total accumulated depreciation	<u>(2,706,707)</u>	<u>(187,987)</u>	<u>-</u>	<u>(2,894,694)</u>
Governmental activities capital assets, net	<u>\$ 1,642,557</u>	<u>\$ 78,473</u>	<u>\$ -</u>	<u>\$ 1,721,030</u>

Depreciation expense was charged to governmental functions as follows:

Instruction:

Regular \$ 111,256

Support Services:

Administration 7,715
 Operations and maintenance 5,956
 Pupil transportation 39,416
 Extracurricular activities 21,808
 Food service operations 1,836

Total depreciation expense \$ 187,987

**NORTHMOR LOCAL SCHOOL DISTRICT
MORROW COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 9 - LONG-TERM OBLIGATIONS

- A. The balance of the District's governmental activities long-term obligations at June 30, 2003 has been restated. The compensated absences liability decreased \$17,974 from \$685,922 to \$667,948 due to the fund reclassifications described in Note 3A. Pension obligations of \$55,814 at June 30, 2003 are not reported as a component of governmental activities long-term obligations as they are paid within one year of fiscal year-end. Pension obligations are reported separately on the statement of net assets. The effect on the total governmental activities long-term obligations at July 1, 2003 was an decrease of \$73,788 from \$741,736 to \$667,948. During fiscal year 2004, the following changes occurred in governmental activities long-term obligations:

	Restated Balance Outstanding <u>06/30/03</u>	<u>Additions</u>	<u>Reductions</u>	Balance Outstanding <u>06/30/04</u>	Amounts Due in <u>One Year</u>
Governmental Activities:					
Compensated absences	\$ 667,948	\$ 177,210	\$ (32,807)	\$ 812,351	\$ 85,460
Total long-term obligations, governmental activities	<u>\$ 667,948</u>	<u>\$ 177,210</u>	<u>\$ (32,807)</u>	<u>\$ 812,351</u>	<u>\$ 85,460</u>

B. Legal Debt Margin

The Ohio Revised Code provides that voted net general obligation debt of the District shall never exceed 9% of the total assessed valuation of the District. The code further provides that unvoted indebtedness shall not exceed 1/10 of 1% of the property valuation of the District.

The effects of these debt limitations at June 30, 2004 are a voted debt margin of \$10,238,293 and an unvoted debt margin of \$113,759.

NOTE 10 - SCHOOL DISTRICT INCOME TAX

The voters of the District passed a 1% school district income tax effective June 2, 1992. This tax is effective indefinitely. School district income tax revenue received by the general fund during fiscal year 2004 was \$938,917.

NOTE 11 - COMPENSATED ABSENCES

The criteria for determining vested vacation and sick leave components are derived from negotiated agreements and State laws. Classified employees earn five to twenty-five days of vacation per year, depending upon length of service. Accumulated unused vacation time is paid to classified employees upon termination of employment. Administrators who are contracted to work 260 days in a year are given five to twenty-five days of vacation per year by contract. Administrators who earn vacation are paid for accumulated unused vacation time upon termination of employment.

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

Compensated absences will be paid from the fund from which the employee is paid.

**NORTHMOR LOCAL SCHOOL DISTRICT
MORROW COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

NOTE 12 - RISK MANAGEMENT

A. Comprehensive

The District is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees and natural disasters. During fiscal year 2004, the District retained property insurance coverage, underwritten by Indiana Insurance Company, in the blanket amount of \$18,194,396 with 100% coinsurance, replacement cost endorsement and a \$500 deductible. Boiler and machinery coverage is provided within the property coverage and limits. The District also has inland marine floaters in the amount of \$63,677 with a \$500 deductible for coverage of audio visual equipment, musical instruments and band uniforms.

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

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

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

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

The District provides life insurance and accidental death and dismemberment insurance to all regular contracted employees in the amount of \$35,000 for certified employees and \$20,000 for classified employees.

The District has elected to provide a comprehensive medical benefits package to the employees through Medical Mutual of Ohio. This package provides a comprehensive medical plan with a \$100 single and \$200 family deductible. Included in the plan is a prescription drug card with a \$10/20/30 per prescription deductible for PCS drugs and a \$20/40/60 per prescription deductible for mail-order 3 month supply of drugs. The total monthly premium for the medical and prescription drug plan is \$326.88 for single coverage and \$821.20 for family coverage which is paid out of the same fund that pays the salary for the employee. The employee pays 15% of the medical premium, while the District pays the remaining 85% of the medical premium and 100% of the Dental/Vision premium. The District's amounts are capped by negotiated union contracts and cannot be increased except through negotiations.

The District provides dental coverage for its employees with a \$25 deductible per person, or \$50 deductible for a family. The total monthly premium for this dental coverage is \$27.42 for single and \$70.49 for family coverage.

The District also provides vision coverage for its employees with no deductible coverage. The total monthly premium is \$16.93 for single or family coverage.

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

**NORTHMOR LOCAL SCHOOL DISTRICT
MORROW COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

NOTE 12 - RISK MANAGEMENT - (Continued)

C. Workers' Compensation Plan

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

The intent of the GRP is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the state based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund".

This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control and actuarial services to the GRP. Each year, the District pays an enrollment fee to the GRP to cover the costs of administering the program.

D. Employee Dishonesty Bonds

The District carries employee dishonesty bonds for the Treasurer, Assistant Treasurer, Superintendent, and Board Members in the amount of \$20,000.

NOTE 13 - DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The District contributes to the School Employees Retirement System of Ohio (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 State Statute Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476, or by calling (614) 222-5853.

**NORTHMOR LOCAL SCHOOL DISTRICT
MORROW COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

NOTE 13 - DEFINED BENEFIT PENSION PLANS - (Continued)

Plan members are required to contribute 10% of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14% 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% of annual covered salary was the portion used to fund pension obligations. For fiscal year 2003, 8.17% of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The adequacy of the contribution rates is determined annually. The District's required contributions to SERS for the fiscal years ended June 30, 2004, 2003, and 2002 were \$141,732, \$80,325, and \$52,298, respectively; 43.56% has been contributed for fiscal year 2004 and 100% for the fiscal years 2003 and 2002. \$79,992, represents the unpaid contribution for fiscal year 2004.

B. State Teachers Retirement System

The District contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing, multiple-employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides retirement and disability benefits, annual cost-of-living adjustments, and death and survivor benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771, 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. 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.

**NORTHMOR LOCAL SCHOOL DISTRICT
MORROW COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

NOTE 13 - DEFINED BENEFIT PENSION PLANS - (Continued)

Plan members are required to contribute 10% of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14% 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 years 2004 and 2003, 13% of annual covered salary was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendation 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 employee contributions. The District's required contributions to STRS for the fiscal years ended June 30, 2004, 2003, and 2002 were \$593,573, \$527,280, and \$368,949, respectively; 83.74% has been contributed for fiscal year 2004 and 100% for the fiscal years 2003 and 2002. \$96,500 represents the unpaid contribution for fiscal year 2004. Contributions to the DC and Combined Plans for fiscal 2004 were \$1,614 made by the District and \$1,537 made by plan members.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by SERS or STRS have an option to choose Social Security or SERS/STRS. As of June 30, 2004, certain members of the Board of Education have elected Social Security. The District's liability is 6.20 percent of wages paid.

NOTE 14 - POSTEMPLOYMENT BENEFITS

The District provides comprehensive health care benefits to retired teachers and their dependents through STRS, and to retired non-certified employees and their dependents through SERS. Benefits include hospitalization, physicians' fees, prescription drugs, and partial reimbursement of monthly Medicare Part B premiums. Benefit provisions and the obligations to contribute are established by STRS and SERS based on authority granted by state statute. Both STRS and SERS 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 Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14% of covered payroll. For this fiscal year, the State Teachers Retirement Board allocated employer contributions equal to 1% of covered payroll to the Health Care Reserve fund. For the District, this amount equaled \$42,398 during fiscal 2004.

STRS pays health care benefits from the Health Care Reserve fund. The balance in the Health Care Reserve 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 million and STRS had 111,853 eligible benefit recipients.

For SERS, coverage is made available to service retirees with 10 or more years of qualifying service credit, and disability and survivor benefit recipients. Effective January 1, 2004, all retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility and retirement status. A safety net is in place for retirees whose household income falls below federal poverty levels. Premiums are reduced by 50% for those who apply.

**NORTHMOR LOCAL SCHOOL DISTRICT
MORROW COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

NOTE 14 - POSTEMPLOYMENT BENEFITS - (Continued)

For this fiscal year, employer contributions to fund health care benefits were 4.91% of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2004, the minimum pay has been established at \$25,400. The surcharge, added to the unallocated portion of the 14% 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% of annual health care expenses, before premium deduction. Gross expenses for health care at June 30, 2004 were \$223.444 million 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 and SERS had approximately 62,000 participants receiving health care benefits. For the District, the amount to fund health care benefits, including surcharge, equaled \$57,056 during the 2004 fiscal year.

NOTE 15 - BUDGETARY BASIS OF ACCOUNTING

While reporting financial position, results of operations, and changes in fund balance on the basis of (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts and disbursements.

The Statement of Revenue, Expenditures, and Changes in Fund Balance - Budget and Actual (Non-GAAP Budgetary Basis) presented for the general fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the GAAP basis are that:

- (a) Revenues and other financing sources are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- (b) Expenditures and other financing uses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);
- (c) In order to determine compliance with Ohio law, and to reserve that portion of the applicable appropriation, total outstanding encumbrances (budget basis) are recorded as the equivalent of an expenditure, as opposed to a reservation of fund balance for that portion of outstanding encumbrances not already recognized as an account payable (GAAP basis).

**NORTHMOR LOCAL SCHOOL DISTRICT
MORROW COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 15 - BUDGETARY BASIS OF ACCOUNTING - (Continued)

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

Net Change in Fund Balance

	<u>General Fund</u>
Budget basis	\$ (8,823)
Net adjustment for revenue accruals	(103,460)
Net adjustment for expenditure accruals	(191,958)
Net adjustment for other sources/uses	24,140
Adjustment for encumbrances	<u>7,013</u>
GAAP basis	<u>\$ (273,088)</u>

NOTE 16 - CONTINGENCIES

A. Grants

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

B. Litigation

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

C. State School Funding Decision

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

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

**NORTHMOR LOCAL SCHOOL DISTRICT
MORROW COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

NOTE 17 - STATUTORY RESERVES

The District is required by state law to set-aside certain general fund revenue amounts, as defined by statute, into various reserves. These reserves are calculated and presented on a cash basis. During the fiscal year ended June 30, 2004, the reserve activity was as follows:

	<u>Textbooks/ Instructional Materials</u>	<u>Capital Acquisition</u>
Set-aside cash balance as of June 30, 2003	\$ (24,662)	\$ -
Current year set-aside requirement	173,894	173,894
Qualifying disbursements	<u>(136,854)</u>	<u>(342,252)</u>
Total	<u>\$ 12,378</u>	<u>\$ (168,358)</u>
Balance carried forward to FY 2005	<u>\$ 12,378</u>	<u>\$ -</u>

The District did not have enough qualifying disbursements to reduce the set-aside amount below zero for the textbooks/instructional materials due to budget cuts. Restricted cash fund balance and a reservation of fund balance has been established in the General fund of \$12,378.

The District had enough qualifying expenditures to reduce the set-aside amount below zero for the capital acquisition reserve, however this amount may not be carried forward to future years.

In addition to the above statutory reserves, the District also received monies restricted for school bus purchases. The balance in the monies restricted for school bus purchases was \$49,803 at June 30, 2004. This balance is reported as restricted equity in pooled cash and reserved fund balance.

NOTE 18 – GOING CONCERN

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America which contemplates continuation of the District's general fund as a going concern. The District has seen a deteriorating fund balance in the general fund. The District is attempting to pass a levy and is working on a cost-cutting plan.

SUPPLEMENTAL DATA

**NORTHIMOR LOCAL SCHOOL DISTRICT
SCHEDULE OF RECEIPTS AND EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

FEDERAL GRANTOR/ SUB GRANTOR/ PROGRAM TITLE	CFDA NUMBER	PASS-THROUGH GRANT NUMBER	(E) CASH FEDERAL RECEIPTS	OTHER FEDERAL RECEIPTS	(E) CASH FEDERAL DISBURSEMENTS	OTHER FEDERAL DISBURSEMENTS
U.S. DEPARTMENT OF AGRICULTURE PASSED THROUGH THE OHIO DEPARTMENT OF EDUCATION:						
Nutrition Cluster:						
(A),(C) Food Distribution	10.550	N/A	\$ -	\$ 38,597	\$ -	\$ 38,597
(A),(D) National School Lunch	10.555	048819-LL-P4-2003	12,287	-	12,287	-
(A),(D) National School Lunch	10.555	048819-LL-P4-2004	69,296	-	69,296	-
Total U.S. Department of Agriculture and Nutrition Cluster			81,583	38,597	81,583	38,597
U.S. DEPARTMENT OF EDUCATION PASSED THROUGH THE OHIO DEPARTMENT OF EDUCATION:						
Title I - Grants to Local Educational Agencies	84.010	048819-C1-S1-2003	-		5,625	
Title I - Grants to Local Educational Agencies	84.010	048819-C1-S1-2004	243,125		243,125	
Total Title I - Grants to Local Educational Agencies			243,125		248,750	
(F) Special Education: Grants to States	84.027	048819-6B-SF-2003-P	37,655		39,497	
Special Education: Grants to States	84.027	048819-6B-SF-2004	76,720		77,388	
Total Special Education			114,375		116,885	
Safe and Drug-Free Schools	84.186	048819-DR-S1-2004	10,272		8,152	
(G) State Grants for Innovative Programs	84.298	048819-C2-S1-2003	(3,870)		3,186	
State Grants for Innovative Programs	84.298	048819-C2-S1-2004	12,286		8,195	
Total State Grants for Innovative Programs			8,416		11,381	
(H) Technology Literacy Challenge Fund Grants	84.318	048819-TJ-S1-2003	(920)		3,635	
Technology Literacy Challenge Fund Grants	84.318	048819-TJ-S1-2004	10,942		10,942	
Total Technology Literacy Grant Funds			10,022		14,577	
(I) Assistive Technology Infusion Project	84.352A	048819-AT-S3-2002	(474)		252,112	
Assistive Technology Infusion Project	84.352A	048819-AT-S3-2003	194,492		-	
Total Assistive Technology Infusion Project			194,018		252,112	
(B) Improving Teacher Quality	84.367	048819-TR-S1-2003	14,468		35,072	
Improving Teacher Quality	84.367	048819-TR-S1-2004	83,648		65,354	
Total Improving Teacher Quality			98,116		100,426	
Total U.S. Department of Education			678,344		752,283	
Total Federal Financial Assistance			\$ 759,927	\$ 38,597	\$ 833,866	\$ 38,597

- (A) Included as part of "Nutrition Grant Cluster" in determining major programs.
 (B) Amount of \$6,042 transferred into next grant fiscal year based on Ohio Department of Education administrative action.
 (C) The Food Distribution Program is a non-cash, in kind, federal grant. Commodities are valued at fair market prices.
 (D) Commingled with state and local revenue from sales of lunches; assumed expenditures were made on a first-in, first-out basis.
 (E) This schedule was prepared on the cash basis of accounting.
 (F) Amount repaid to the Ohio Department of Education based on period of availability expiration.
 (G) A amount of \$6,088 transferred into next grant fiscal year based on Ohio Department of Education administrative action.
 (H) Amount of \$2,266 transferred into next grant fiscal year based on Ohio Department of Education administrative action.
 (I) Amount repaid to the Ohio Department of Education based on period of availability expiration.
 (J) Monies received from Ohio School Facilities Commission and \$12,548 refunded during fiscal year.

TRIMBLE, JULIAN & GRUBE, INC.

“SERVING OHIO LOCAL GOVERNMENTS”

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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
Northmor Local School District
5247 County Road 29
Galion, OH 44833

We have audited the financial statements of the governmental activities, its major fund, and the aggregate remaining fund information of the Northmor Local School District, Morrow County (the “District”) as of and for the fiscal year ended June 30, 2004, which collectively comprise the District’s basic financial statements and have issued our report thereon dated February 15, 2005. As disclosed in Note 3 to the financial statements, the District implemented Governmental Accounting Standards Board (GASB) Statement No. 34, Basic Financial Statements and Management’s Discussion and Analysis - for State and Local Governments; GASB Statement No. 37, Basic Financial Statements and Management’s Discussion and Analysis for State and Local Governments: Omnibus; GASB Statement No. 38, Certain Financial Statement Note Disclosures; GASB Statement No. 39, Determining Whether Certain Organizations Are Component Units; GASB Interpretation No. 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements, and GASB Statement No. 41, Budgetary Comparison Schedule - Perspective Differences for fiscal year ended June 30, 2004. In addition, capital assets have been restated due to changes in the District’s capital asset policy, reclassification of proprietary fund capital assets and errors and omissions as described in Note 8A. 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 District’s internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts 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. However, we noted certain matters that we reported to management of the District, in a separate letter dated February 15, 2005.

Board of Education
Northmor Local School District

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and 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 an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2004-NLSD-001. We also noted a matter that we have reported to management of the District in a separate letter dated February 15, 2005.

This report is intended solely for the information of the Board and management of Northmor Local School District, 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.

A handwritten signature in cursive script that reads "Trimble, Julian & Grube, Inc.".

Trimble, Julian & Grube, Inc.
February 15, 2005

TRIMBLE, JULIAN & GRUBE, INC.

“SERVING OHIO LOCAL GOVERNMENTS”

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Report on Compliance With Requirements Applicable to Its Federal Program and on Internal Control Over Compliance in Accordance With *OMB Circular A-133*

Board of Education
Northmor Local School District
5247 County Road 29
Galion, OH 44833

Compliance

We have audited the compliance of the Northmor Local School District, Morrow County (the “District”) with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal program for the fiscal year ended June 30, 2004. The District’s major federal program is identified in the summary of auditor’s results section of the accompanying schedule of findings. During the fiscal year ended June 30, 2004, the District implemented Governmental Accounting Standards Board (GASB) Statement No. 34, Basic Financial Statements and Management’s Discussion and Analysis - for State and Local Governments; GASB Statement No. 37, Basic Financial Statements and Management’s Discussion and Analysis for State and Local Governments: Omnibus; GASB Statement No. 38, Certain Financial Statement Note Disclosures; GASB Statement No. 39, Determining Whether Certain Organizations Are Component Units; GASB Interpretation No. 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements, and GASB Statement No. 41, Budgetary Comparison Schedule - Perspective Differences. In addition, capital assets have been restated due to changes in the District’s capital asset policy, reclassification of proprietary fund capital assets and errors and omissions as described in Note 8A. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the District’s management. Our responsibility is to express an opinion on the District’s compliance based on our audit.

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

Board of Education
Northmor Local School District

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

Internal Control Over Compliance

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

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 solely for the information of the Board of Education and management of the Northmor Local School District, 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.

Trimble, Julian, & Grube, Inc.

Trimble, Julian & Grube, Inc.
February 15, 2005

**NORTHMOR LOCAL SCHOOL DISTRICT
MORROW COUNTY, OHIO**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 § .505
JUNE 30, 2004**

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 non-compliance at the financial statement level (GAGAS)?	Yes
<i>(d)(1)(iv)</i>	Were there any material internal control weakness conditions reported for its major federal program?	No
<i>(d)(1)(iv)</i>	Were there any other reportable internal control weakness conditions reported for its major federal program?	No
<i>(d)(1)(v)</i>	Type of Major Program Compliance Opinion	Unqualified
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510?	No
<i>(d)(1)(vii)</i>	Major Program:	Title I: Grant to Local Educational Agencies, CFDA #84.010
<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

**NORTHMOR LOCAL SCHOOL DISTRICT
MORROW COUNTY, OHIO**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 § .505
JUNE 30, 2004**

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

Finding Number	2004-NLSD - 001
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Ohio Revised Code Section 5705.41(B) requires that no subdivision is to expend money unless it has been appropriated.

It was noted during the audit that the District had expenditures exceeding appropriations in the following funds at June 30, 2004:

	<u>Appropriations</u>	<u>Expenditures</u>	<u>Excess</u>
<u>Major Fund</u>			
General	\$ 8,455,026	\$ 8,606,755	\$ 151,729
<u>Nonmajor Funds</u>			
Athletics	37,189	64,898	27,709
Management Information System	5,851	8,851	3,000
Food Service	342,205	350,605	8,400

With expenditures exceeding appropriations, the District is expending monies that have not been appropriated and approved by the Board of Education. This may result in unnecessary purchases or overspending which may lead to a fund deficit.

We recommend that the District comply with the Ohio Revised Code and the Auditor of State Bulletin 97-010 by monitoring expenditures so they do not exceed lawful appropriations and amending the budget throughout the fiscal year. This may be achieved by monitoring the budget more closely on a continual basis.

3. FINDINGS FOR FEDERAL AWARDS

None.

**NORTHMOR LOCAL SCHOOL DISTRICT
MORROW COUNTY, OHIO**

**STATUS OF PRIOR AUDIT FINDING
OMB CIRCULAR A-133 § .505
JUNE 30, 2004**

<u>Finding Number</u>	<u>Finding Summary</u>	<u>Fully Corrected?</u>	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2003-01	Develop internal control procedures to ensure completeness of prepaid lunch receipts and retain tally sheets at Johnsville Elementary School.	Partially corrected	Reported in the management letter regarding collection of prepaid lunches. Retention of tally sheets fully corrected.



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**NORTHMOR LOCAL SCHOOL DISTRICT
MORROW COUNTY**

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MARCH 31, 2005**